

**FOR  
AGENDA**

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May 1, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Togo—Staff Report for the 2002 Article IV Consultation and Review of the Staff-Monitored Program**

Attached for consideration by the Executive Directors is the staff report for the 2002 Article IV consultation with Togo and review of the staff-monitored program, which is tentatively scheduled for discussion on Friday, May 17, 2002. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Togo indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. B. Sarr, EXR (ext. 37247), Ms. Adenauer, AFR (ext. 38277), and Mr. Ossié, AFR (ext. 38658).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, May 9, 2002; and to the African Development Bank, the European Commission, the Islamic Development Bank, and the West African Economic and Monetary Union, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

TOGO

**Staff Report for the 2002 Article IV Consultation and Review  
of the Staff-Monitored Program**

Prepared by the African Department  
(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs,  
Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Jean A. P. Clement and Martin Fetherston

April 30, 2002

- A staff team visited Lomé from January 23 to February 6, 2002 to conduct discussions for the 2002 Article IV consultation and review the staff-monitored program (SMP) covering the period April-December 2001. The Togolese authorities have agreed to publish the 2002 Article IV staff report, following its consideration by the Executive Board.
- The staff team comprised Mr. B. Sarr (head), Ms. Adenauer, Mr. Ossié, Ms. Williams-Smith (Administrative Assistant) (all AFR), Mr. Schulte (SEC) and Mr. Jean-Pierre Le Boudier, Senior Resident Representative in Lomé. Mr. Ondo Mañe, Alternate Executive Director for Togo, participated in the policy discussions, and Mr. Souissi, a staff member from the African Development Bank, worked closely with the team. The mission met with President Eyadéma, the Prime Minister, the Minister of Economy, Finance and Privatization, the Minister of Planning and Development, and the National Director of the BCEAO, as well as with representatives of commercial banks and the private sector, and major bilateral and multilateral donors.
- Discussions on a new PRGF arrangement could not be initiated at the expiration of the last Enhanced Structural Adjustment Facility (ESAF) arrangement in June 1998, mainly because of the need to establish beforehand a track record of policy performance. Regarding political developments, a consensus on the timing of the legislative elections has yet to emerge, and little progress has been made in normalizing Togo's relations with development partners. The 2001 Article IV consultation with Togo was concluded on April 20, 2001.
- Togo has accepted the obligation of Article VIII, Sections 2, 3 and 4 and maintains an exchange system free of restrictions subject to approval under Article VIII.

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## EXECUTIVE SUMMARY

- **On the political front**, legislative elections scheduled to take place in October 2001 in Togo were initially postponed until March 2002. The authorities' decision in February 2002 to amend unilaterally major provisions of the electoral code has jeopardized the participation of opposition parties in the elections, which have been postponed again to an unspecified date. The European Union (EU) and United Nations (UN) have temporarily suspended their support of the electoral process. The holding of free and fair legislative elections is necessary for the resumption of financial assistance from the international community.
- **The Togolese economy recovered somewhat in 2001, achieving a real GDP growth rate of 2.7 percent, compared with a contraction of 1.9 percent in 2000.** This recovery was driven by solid growth in cash crop production, reflecting favorable climatic conditions and, in the case of cocoa, higher international prices. **The average annual rate of inflation picked up to 3.9 percent**, mainly owing to higher transportation costs. **The external account deficit (including transfers) widened** to 15.9 percent of GDP, reflecting a decline in phosphate production and weak international cotton prices. The consumer price-based real effective exchange rate appreciated by 1.6 percent in 2001.
- **The authorities' medium-term objective is to create a favorable environment for a sustained real rate of economic growth averaging 5 percent, while keeping inflation at about 2-3 percent.** To achieve these macroeconomic objectives, it will be critical to stabilize public finances. The main challenge is to limit expenditures to available budgetary resources, so as to avoid any further deterioration of public finances, and to restore full financial relations with development partners. The authorities will also need to show their determination to complete the privatization of public enterprises and state banks in the period ahead.
- **Performance under the staff-monitored program (SMP) covering the period April-December 2001 was mixed.** Although significant progress was made on the structural front, most of the quantitative benchmarks were not met. **In the context of the 2002 Article IV discussions, the authorities have prepared an economic program covering 2002 that will serve as a basis for continued policy dialogue with the Bretton Woods institutions, pending a full resolution of the present political situation and resumption of external assistance.** The program should allow the authorities to demonstrate their commitment to stabilize public finances and complete the ongoing privatization of banks and public enterprises.
- **Budgetary resources are extremely tight and, given the present political environment and absence of external support, the authorities have little room for maneuver.** The staff urges the authorities to implement their economic program forcefully and emphasizes that every effort will need to be made to regularize relations with their bilateral and multilateral external partners, so as to facilitate the resumption of normal budgetary assistance and development assistance as soon as possible.

- The agreement reached with a private group to rehabilitate the **physical infrastructure of the OTP** (phosphate company) under a new management team before fully privatizing it is proceeding well. The authorities are to be commended for addressing the problem in this critical sector of the Togolese economy, including by successfully negotiating a rescheduling agreement of the OTP's debt with all commercial banks.
- The staff shares the authorities' concern over the potential impact on growth and poverty alleviation of the looming problems in the **cotton sector**. The short-term measures under active consideration to limit the deficit supported by SOTOCO for the 2001/02 crop season are steps in the right direction. The recommendations of the diagnostic study to be prepared with the World Bank assistance should also help address the short-term problems; meanwhile, over the medium term, more in-depth complementary studies will be required to design the restructuring strategy for this sector, and the specific actions needed to improve the competitiveness of the cotton sector and reinforce the role of producers.

## I. INTRODUCTION

1. **Togo's 2002 Article IV consultation discussions were conducted against a background of domestic political uncertainty.** Legislative elections, scheduled to take place in October 2001, have been now postponed to an unspecified date, leading to an unsettled political situation and further delays in the resumption of normal financial relations with external multilateral and bilateral donors. **Performance under the staff-monitored program (SMP) covering the period April-December 2001 was mixed.** Although significant progress was made on the structural front, most of the quantitative benchmarks were not met. **The authorities have prepared in close collaboration with the staff an economic program, covering 2002,** that will serve as a basis for continued economic policy dialogue with the Bretton Woods institutions, pending a full resolution of the present political situation and resumption of external assistance. The thrust of the authorities' economic program is outlined in Section III and Box 2 of this report.
2. **Togo is on the standard 12-month consultation cycle.** The last Article IV consultation was concluded in April 2001 (EBM/01/40; 4/20/01). At that time, Executive Directors welcomed the new government's determination to address weaknesses in economic policy and performance and to accelerate structural reforms in 2001 under an SMP monitored. They stressed that efforts to regain control over the execution of the budget, make concrete progress in restructuring the banking system and the public enterprise sector, and improve relations with external creditors would help lay the foundation for sustained growth and poverty alleviation over the medium term. Directors also emphasized that establishing a credible track record of policy implementation would be critical for Togo to mobilize rapidly the financing assurances necessary for a program that could be supported by a Poverty Reduction and Growth Facility (PRGF) arrangement.
3. In August 2001, Togo cleared all arrears to the World Bank (CFAF 5.7 billion, or about US\$8 million), and disbursements resumed on five ongoing projects and three Institutional Development Fund (IDG) grants. However, on January 1, 2002, the World Bank again suspended disbursements to Togo owing to a renewed accumulation of arrears (CFAF 2.1 billion or \$3 million). Togo's relations with the Fund and World Bank are summarized in Appendices I and III.

## II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM

4. **On the political front, legislative elections initially scheduled to take place in October 2001 were postponed,** reportedly owing to a lack of financing and inadequate preparation by the Independent National Electoral Commission (CENI) in charge of organizing the elections. Following mediation by international facilitators and the UN, a compromise was reached among all political parties to reschedule the October 2001 elections for March 2002. However, in February 2002, the authorities' announcement of a series of unilateral amendments to the electoral code led opposition parties to announce that they would not participate in the elections. The Secretary-General of the UN and key bilateral partners voiced serious concerns over this unilateral decision and appealed to the authorities to resume the political dialogue and reach a consensus on the holding of free and fair parliamentary elections. The European Union (EU) and UN temporarily suspended their support of the electoral process in Togo, and **the authorities**

**announced that elections were postponed again, to an unspecified date. The holding of free and fair legislative elections is the condition set by Togo's main donors for the resumption of their financial assistance.**

5. On April 20, 2001, the Executive Board was informed of an SMP covering initially the period April-September 2001. The SMP was subsequently extended to December 2001. The main objectives of the program were to strengthen public finances, accelerate structural reforms, and normalize relations with the international community. **Performance under the SMP was mixed.** While significant progress was made in implementing structural reforms, most of the quantitative benchmarks under the SMP were not met. In particular, because of persistent political uncertainties and the lack of external financial support, fiscal management became difficult, causing cash-flow pressures for the government. Quantitative benchmarks on net credit to the government, the nonaccumulation of new domestic and external arrears, and the phased reduction of payment arrears to multilateral institutions were missed (Table 6).

6. **The Togolese economy recovered somewhat in 2001, achieving real GDP growth rate of 2.7 percent, compared with a contraction of 1.9 percent in 2000.** The recovery was driven by solid growth in cash crop production, reflecting favorable climatic conditions and, in the case of cocoa, higher international prices. Despite robust growth in cement production, the secondary sector was hampered by a major contraction of phosphate production, caused by a decline in the capacity of the Togolese Phosphate Company (OTP) and a further deterioration of its financial situation. Growth in the service sector remained modest as a result of a slowdown in public sector investment and continued political uncertainty. The average annual rate of inflation picked up to 3.9 percent, mainly reflecting higher transportation costs (Table 1 and Figure 1).

7. In the fiscal area, government revenue performance in 2001 was hampered by **continued problems in the collection of taxes from key public enterprises and a shortfall in petroleum excise tax receipts**, as the automatic adjustment mechanism was not implemented as envisaged.<sup>1</sup> The revenue shortfall was offset somewhat by cuts in current expenditure. However, substantial expenditure pressures emerged in the last quarter of 2001, notably as regards extrabudgetary spending, including travel abroad. The wage bill was smaller than programmed, as recruitment in the social sectors was delayed. Investment spending was also below target owing to a delay in foreign project disbursements. While the overall deficit, on a payment order basis and including grants, was limited to 2.0 percent of GDP (compared with 3.8 percent of GDP under the program), there was a substantial accumulation of domestic and external payment arrears on debt service (about 3.5 percent of GDP). The resulting overall surplus was 1.5 percent of GDP on a cash basis (compared with 5.3 percent deficit under the program). With limited domestic financing and a substantial shortfall in external financing, further arrears were accumulated on amortization payments (Table 2).

8. **Broad money decreased by 7.5 percent in 2001 on account of a decline in both net domestic and net foreign assets.** Net domestic assets fell by 4.4 percent (of beginning-period money stock), owing to the decline in net claims on the government sector (Table 3). The

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<sup>1</sup> The adjustment is based on a full pass-through of international prices and other costs.

financial system has continued to be affected by the overall economic environment, and most banks are not in compliance with prudential ratios. At end-December 2001, only three banks out of seven complied with the risk-adjusted capital adequacy ratio. Two banks had negative capital equity, and four banks were in violation of the liquidity ratio. Most of these banks are under close surveillance by the banking commission.

9. **The external current account deficit (including official transfers) widened to about 16 percent of GDP in 2001 from 14 percent in 2000**, as the improvement in the terms of trade was more than offset by a larger volume of imports and a deterioration in the services (Table 4). Both the capital account and the financial account surplus narrowed, largely owing to a marked decline in loan disbursements and in medium- and long-term investment resulting from the unsettled political situation. The overall balance of payments deficit thus widened to about 5.6 percent of GDP in 2001 from 2.6 percent in 2000. While the nominal effective exchange rate depreciated further in 2001, with the strengthening of the U.S. dollar against the euro, to which the CFA franc is pegged, the real effective exchange rate appreciated by about 2 percent on account of the surge in inflation (Table 1 and Figure 3).

10. Since the expiration of the Paris Club rescheduling arrangement in 1998, **Togo has continued to accumulate external payment arrears**. During 2001, the government signed two debt-rescheduling agreements—one with the Kuwait Fund for Arab Economic Development and the other with the Arab Bank for Economic Development in Africa (BADEA)—as well as a debt-cancellation protocol with the People's Republic of China. The cancellation amounted to CFAF 9.3 billion out of a total of CFAF 29.6 billion owed to the People's Republic of China. Togo's total **external debt stock at end-2001** is estimated at about US\$1,293 million (103 percent of GDP), of which US\$171 million is payments arrears. The total amount of debt includes US\$649 million to multilateral creditors and US\$298 million to official bilateral creditors (of which US\$257 million is owed to Paris Club creditors) (Table 5).

11. **On the structural front**, the government completed the privatization of the container terminal of the Autonomous Port of Lomé and the Togolese Insurance Group (Groupement Togolais d'Assurances—GTA). With regard to banking system reform, a private international bank is now the majority shareholder of the BTCI (Banque Togolaise pour le Commerce et l'Industrie), although this change in ownership structure still needs the approval of the West Africa Economic and Monetary Union (WAEMU) Banking Commission. The commission's approval would be based on an agreement with the new management team on a plan to bring the bank back in line with regional prudential ratios. The government has also signed a privatization agreement for the SNI (Société Nationale d'Investissement). Regarding the privatization of the BTD (Banque Togolaise de Developpement), negotiations with a potential investor were not successful owing to disagreements over the transaction price.

12. With regard to the Office Togolais des Phosphates (OTP), the government has completed negotiations with a private partner to establish a new company, International Fertilizers Group Togo (IFG Togo). The partner will, before full privatization, rehabilitate OTP and carry out feasibility studies for the construction of phosphoric acid plant. The partner has also provided financing US\$40 million to rehabilitate the OTP's production equipment in order to bring production back to a profitable level, and it has reached an agreement with local banks to restructure all the outstanding OTP debt. (Box 1).

### **Box 1. Togo: The Rehabilitation of the OTP**

#### **Situation at end-2001**

The OTP (Office Togolais des Phosphates) is the public enterprise in charge of phosphate extraction, treatment and marketing. Since 1997, production has been falling rapidly (from 2.8 million tons in 1996 to 1.4 million tons in 1999, and further to 1.1 million tons in 2001) because of poor maintenance of existing equipment and lack of new investment. During the same period, production costs per ton increased sharply, from US\$25.0 in 1996 to US\$46.0 in 1999, and to over US\$63.0 in 2000. Data on production costs for 2001 are not yet available. The higher production costs were due to rapid increase in wages, major cost overruns on subcontracted work, limited control over purchases, and **other costs (mainly transportation); meanwhile production fell.** As a result of this situation, the export value of the phosphate sectors has fallen dramatically, and its overall share declined from more than 8 percent 15 years ago to less than 4 percent in 2001. The OTP incurred financial losses in 1998 (CFAF 976 million percent of GDP), 1999 (CFAF 3.8 billion percent of GDP), and 2000 (CFAF 11.2 billion-1.3 percent of GDP). The decline in the OTP production was accompanied by increased debt vis-à-vis the banking system. The cumulative amount at end-2001 was CFAF 26.1 billion (11 percent of M2), about US\$35 million, potentially causing a systemic threat to the banks. Requests by the government for financial advances contributed to a worsening of the OTP's financial difficulties, which also led to a suspension of the mining tax and frequent compensation operations with the treasury.

#### **The rehabilitation scheme**

Following an inconclusive earlier attempt made, the government negotiated with a private partner a scheme for the privatization and rehabilitation of the OTP. Representatives of government, the private partner, and the manager of the joint venture visited Washington in February 2002 to present the scheme to the World Bank. The first step, effective January 2002, is the creation of International Fertilizers Group Togo (IFG Togo), a joint venture (50/50) with capital of US\$6 million, which has been put in charge of the exclusive interim management of the OTP for 40 months. A mining manager assisted by a core team of expatriates and Togolese specialists in mining, equipment maintenance, stock management, and cost control, heads IFG Togo. The joint-venture company will rehabilitate the production capacity, reduce production costs, and service the OTP's debt vis-à-vis the banking system in accordance with the moratorium signed with the banks. Moreover, it will carry out preparatory studies with a view to building a phosphate acid plant (second step). The privatization will occur when the OTP has been rehabilitated and the phosphoric acid plant built. The private partner brought in US\$3 million as equity and mobilized US\$40 million (a US\$20 million medium-term loan; and a US\$20 million leasing loan) without government guarantee. The joint venture will acquire new and repair existing equipment, and quickly restore the production capacity (1.5 million tons in 2002; 2.5 million in 2003; 3.0 million in 2004; and 3.3 million from 2005 onward), while production costs will be reduced to US\$36.3 million in 2002 and to less than US\$ 25.0 million in 2008. IFG Togo's tax regime is the same as OTP's, that is, it pays a mining tax of 5 percent of f.o.b. value of exports; estate tax; value-added tax; corporate tax (37 percent of profits). In addition, IFG Togo will retain and transfer to the treasury the payment of income tax and tax on salaries for its workers.

#### **Expected benefits of the rehabilitation scheme are as follows:**

- restoration of the production volume and reduction of production costs to a viable level;
- efficient private management;
- settlement of debts vis-à-vis the banking system;
- increased value-added of the sector through the creation of a phosphoric acid unit; and
- good governance and transparency in relations between the government and the phosphate company.

### III. REPORT ON THE DISCUSSIONS

#### A. Medium-Term Framework and Outlook for 2002

13. Togo's medium-term economic prospects will depend on **continued adherence to prudent macroeconomic policies, an acceleration of structural reforms to foster an environment favorable to private sector development, and the normalization of relations with external donors.** The authorities initially projected a higher real growth rate (6-7 percent per annum) for 2002 and beyond; recognizing, however, the uncertainty as to the timing of external assistance and the resumption of private sector inflows, they agreed that economic growth rising gradually to 5 percent and the containing of inflation at about 2 percent would be more realistic medium-term targets. On the assumption of a steady implementation of the economic program in 2002 and a resolution of the political situation toward the end of the year, the rate of real economic growth is expected to pick up to 3.0 percent in 2002 and could reach 5.5 percent by 2007. Average annual inflation is envisaged to decelerate to about 2 percent in 2002, and to be maintained at about this rate over the medium term. The projected improvement in economic growth would be attributable to a rising level of savings and investment, and increased production of cotton, cocoa, and foodstuff. Moreover, the implementation of the rehabilitation plan for the OTP will also allow production to increase, starting in 2002. In line with the most recent information and the latest projections of the World Economic Outlook, the external account deficit (including official transfers) is expected to narrow substantially from 15.9 percent of GDP in 2002 to 8.4 percent in 2007. This improvement is likely to be driven by higher export growth (averaging per annum 7.0 percent) that would outpace import growth (averaging 4.5 percent per annum) over the period 2002-07. The terms of trade are projected to improve by 10 percent over the same period (Appendix V, Table 7).

14. The main risk is that a weak implementation of the measures envisaged in the economic program and an unresolved political situation will result in a continued absence of donor support, and further delay in restoring a sound environment for private sector development. Under such a scenario, real GDP would only grow by 2.5 percent in 2003 and would fluctuate around 2.5 percent until 2007; meanwhile, social indicators would worsen. The deficit of the external current account would remain above 10 percent of GDP, leading to a further accumulation of external arrears (Appendix V, Table 7).

#### B. Macroeconomic Policy

##### Fiscal policy for 2002

15. **The main objective of the fiscal program discussed with the authorities is to ensure that spending will be in line with available domestic cash resources.** The primary balance is projected to show a small surplus (1.3 percent of GDP) in 2002. Taking into account scheduled interest payments, the overall fiscal deficit (on a payment order basis and including official grants) is to be contained at 1.6 percent of GDP. The overall fiscal deficit (on a cash basis and including official grants) is projected at 1.8 percent of GDP. With identified external financing limited to drawings on few projects already under way, and with recourse to central bank advances, already above the statutory ceiling, a financing gap equivalent to CFAF 41.1 billion

(4.3 percent of GDP) is likely to emerge. The authorities have not yet identified possible source of financing.

16. Total revenue is projected to increase by 0.8 percent of GDP in 2002 to 14.6 percent of GDP (Table 2). This improvement is predicated on continued efforts to strengthen the mobilization of revenue from public enterprises. In this regard, the recent reorganization of the large-taxpayer unit in the tax department and improved transparency in the relations between the treasury and public enterprises will enhance revenue collection. Moreover, the full-year impact of the increase in excise rates on imported tobacco, alcoholic beverages, and cosmetic products that became effective in June 2001, as well as the timely implementation of the new WAEMU directive on petroleum taxation,<sup>2</sup> should also play an important role in achieving the revenue targets. The authorities acknowledged the need to considerably strengthen tax administration; the staff encouraged them to take further actions to combat tax evasion by participating in regional initiatives to share information among customs offices and by controlling the wide-ranging and generous tax exemptions granted to international organizations and nongovernmental organizations in line with Togo's present budgetary capacity. The authorities also indicated their intention to explore the fiscal treatment of cellular telephone licenses, with a view to generating more nontax income for the government.

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<sup>2</sup> The main features of the new WAEMU directives on petroleum taxation are as follows: a phased reduction in cross-subsidies, between various petroleum products, to be replaced by a more transparent subsidization scheme starting with a 20 percent reduction in 2002, and the application of the current value-added tax (VAT) rate of 18 percent to replace specific taxes.

**Box 2. Togo: Main Elements of the Authorities' Economic Program**

**The authorities have indicated to the staff their intention to implement an economic program for the period January-December 2002.** The program was designed within the difficult context of continued political uncertainty related to the electoral process and the resumption of normal financial relations with the international community. The main objectives of the program are the stabilization of public finances and the completion of the ongoing privatization of banks and public enterprises.

**In the fiscal area**, the government intends to continue rehabilitating government finances by ensuring that spending is better controlled and adjusted in line with revenue inflows. **In the revenue area**, efforts to reinforce tax collection by the large enterprise tax unit and the automatic monitoring of delinquent taxpayers will continue. The government has also scheduled a number of additional measures in 2002, including a revision of the taxation of cellular phones by June 2002 and a revision by May 2002 of the scope of tax exemptions, especially for those granted to certain diplomatic representations and various nongovernmental organizations (fiscal estimates do not include potential revenues from these two sources). In addition, the government intends to revise the price structure of petroleum products by June 2002 and to ensure its conformity with the WAEMU's regional directives. **On the expenditure side**, no salary increase will be granted and the automatic civil service promotions will be formally suspended. Moreover, current nonwage spending will also be controlled at all levels of the administration to avoid any unexpected outlays and to allow for an adequate allocation to the priority sectors of health, education, and social infrastructure. The authorities indicated that they will not be in a position to allocate budgetary resources to meet nonreschedulable external debt service to key multilateral institutions. The situation will continue to be assessed, and, if additional resources become available, the government will give priority to reducing arrears on such debt.

**The structural reform program** will continue to focus on completing the privatization of the remaining state banks and implementing the government public enterprise privatization program. The **OTP** rehabilitation scheme should allow phosphate production and exports to pick up and the competitiveness of the sector to be gradually restored. In the **cotton sector**, the government intends to take the necessary steps to preserve this sector's potential contribution to Togo's medium-term economic growth and the reduction of poverty. In this connection, the government is holding discussions with the main players in the sector to identify the cost-cutting measures necessary to reduce the potential deficit while protecting producers' incomes.

17. The projected increase in overall expenditure in 2002 (1.2 percentage points of GDP compared with 2001) mainly reflects more realistic allocation for government consumption of services, such as electricity and telephones, so as to avoid a further accumulation of domestic arrears; at the same time, the consumption of these services charged to the budget will be controlled.<sup>3</sup> The wage bill for 2002 is projected at about the same level as in 2001. The continuation of the present freezes in promotion and the strict enforcement of the retirement age for civil servants are expected to offset the planned hiring in the social sectors. Increased social sector spending and higher funding for subsidies and transfers are provided for in the 2002 fiscal program, thereby allowing for the mobilization of the domestic counterpart to education-related projects financed from external sources. Election costs are budgeted at CFAF 2.6 billion (0.3 percent of GDP), of which CFAF 1.6 billion was initially envisaged to be financed by

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<sup>3</sup> Electricity consumption of a number of commercial activities located in government building are charged to the budget.

external grants. Public investment is expected to remain broadly unchanged (from 2.5 percent of GDP to 2.6 percent). Spending in the priority areas of education and health and social infrastructure is expected to increase in 2002 in the context of the government's poverty reduction strategy (Box 3).

<b>Box 3. Togo: Education and Health Spending, 2000-02</b>					
	2000		2001		2002
	Budget	Outturn 1/	Budget	Outturn 1/	Budget
(In percent of total primary spending)					
Education					
Total	35.7	24.9	34.1	26.8	31.4
<i>Of which:</i> wage costs	20.3	20.6	19.9	25.1	23.8
Health					
Total	7.4	6.2	7.1	5.9	9.1
<i>Of which:</i> wage costs	5.2	4.3	5.2	4.6	4.7
(In percent of GDP)					
Memorandum items:					
Education spending	4.3	3.5	3.7	3.2	3.6
Health spending	0.9	0.9	0.8	0.7	0.9
Sources: Togolese authorities; and staff estimates and projections.					
1/ Outturn is on a payment order basis.					

18. **Discussions with the authorities focused on the measures needed to improve expenditure management.** Strict expenditure control was exercised during the first half of 2001 and contributed to the initial success of the fiscal program. However, rising extrabudgetary spending adversely affected the implementation of the budget toward the end of the year. The staff emphasized the need to ensure that the 2002 treasury cash-flow mechanism would be a more effective instrument for managing scarce budgetary resources. In this regard, the rolling treasury cash-flow plan proposed by the Minister of Finance will be formally adopted by the Council of Ministers under the authority of the Prime Minister, with a view to obtaining a consensus of opinion of all spending departments and eliminating a potential source of budgetary arrears. The staff team also advised the authorities to allocate a minimum of CFAF 1.5 billion toward reducing domestic arrears to alleviate pressures on the cash-flow situation of private entities, especially those involved in rehabilitating economic and social infrastructures. The authorities agreed with this objective but observed that the resolution of the domestic arrears situation would need to be carried out in the context of a comprehensive economic and financial program supported by financial resources from multilateral financial institutions.

## Monetary policy and financial sector reform

19. **The Central Bank of West African States (BCEAO) conducts Togo's monetary policy at the regional level.** Net foreign assets of the banking system are expected to contract by 2.4 percent of beginning-of-period broad money in 2002, while broad money is projected to expand by about 4.5 percent, in line with nominal GDP. Given the tight financial situation, the government will not be able to comply with the decision taken by WAEMU ministers to eliminate the stock of outstanding advances from the BCEAO. The authorities agreed that an immediate priority for Togo was to reduce the stock of its advances from the central bank below the statutory ceiling, so as to avoid the high penalty interest rate. In this regard, net credit to the government is projected to decrease by about CFAF 4.0 billion in 2002, which will allow credit to the economy to increase by 2.7 percent of beginning-of-period money stock (Table 3).

20. Under the Fund's safeguards assessment policy, the Central Bank of the West African States (BCEAO), of which Togo is a member, is subject to a full safeguards assessment. An off-site safeguards assessment of the BCEAO was completed on July 25, 2001. The assessment concluded that high risks may exist in financial reporting framework, and recommended an on-site assessment. **A Stage Two (on-site) safeguards assessment of the BCEAO was completed on March 5, 2002.** While BCEAO has committed itself to implementing specific remedies<sup>4</sup> to alleviate vulnerabilities identified by staff, discussions are continuing on the implementation of the recommendations related to acceptance of the International Accounting Standards and establishment of an audit committee (Appendix II).

21. **The financial situation of the banking system will continue to be affected strongly by the overall economic and political situation in 2002.** However, the rehabilitation of OTP and the agreement reached on the rescheduling of its nonperforming loans (CFAF 26 billion) will help to strengthen banks' balance sheets and should enable the banking commission to reassess the level of provisioning required for claims on the OTP. The government has prepared new bidding documents for the privatization of both the **BTD and UTB**, and launched the invitations for bids in March 2002. Finally, the government is committed to supporting the banking commission and the BCEAO in supervising the banking system, especially during this period of restructuring and privatization.

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<sup>4</sup> These include publication of financial statements with detailed notes and enhanced training for professional auditors.

**Box 4. Togo: Anti-Money Laundering and Combating the Financing of Terrorism**

- The Togolese authorities have returned the AML/CFT questionnaire and its is being evaluated. They have indicated that no specific laws dealing with money laundering and terrorism financing have been adopted, although Article 104 of Law 98-008 of March 18, 1998, on the control of drug money has extensive provisions against money laundering. Togo is a member of the Intergovernmental Action Group against money laundering in Africa (Groupe Intergouvernemental d'Action contre le Blanchiment en Afrique, GIABA).
- Following the September 11 events, the legal framework was strengthened to address more explicitly money laundering and terrorism financing, building on elements of the existing laws against drug money. As a first step, the authorities passed legislation in November 2001 instructing Togolese banks to comply with the freeze of the financial assets of a list of terrorist organizations and individuals, in line with the resolutions of the Security Council of the UN.
- At the WAEMU level, guidelines dealing specifically with money laundering and the financing of terrorism were discussed in a seminar held in Dakar in February 2002. Under these guidelines, each member country will establish under the authority of the Minister of Finance a unit in charge of collecting, analyzing, and processing the information relating to possible acts of money laundering by individuals or organizations. Following a decision by the Council of Ministers of WAEMU scheduled to be taken in April 2002, each member state will enact the provisions of the guidelines in its national legislation and will entrust the BCEAO and the WAEMU Commission with monitoring the implementation of its provisions. Commercial banks and financial institutions have been closely involved in the discussions of these guidelines, and, in the preparation of a reporting format that could help track down money laundering. They have also initiated training for their staff to increase awareness of money laundering issues.

**External sector policies**

22. **The external current account (excluding official transfers) is projected to remain at about 16.8 percent of GDP in 2002.** This outlook reflects mainly a 7 percent increase in the volume of the main exports (cocoa, cotton, and phosphate), which is expected to more than offset the deterioration in the terms of trade and a 4 percent increase in import volumes. The surpluses of the capital account and the financial account are projected to decrease because of smaller capital inflows. The overall deficit of the balance of payments is thus expected to widen to about CFAF 59 billion (6.1 percent of GDP). In the absence of external support, this deficit is likely to result in a further accumulation of external debt arrears, including on nonreschedulable external debt. While recognizing the difficult financial situation, the staff urged the authorities to give a high priority to reducing external arrears, particularly to multilateral financial institutions, as such a reduction will be critical in providing early financial support to Togo, once the political situation has been resolved. To facilitate discussions with the main creditors and donors, the government has reinforced the external debt-management unit by increasing its human and physical resources, so as to enable a reconciliation of debt data with creditors.

**C. Regional and Trade Issues**

23. **The authorities continue to participate actively in regional policies aimed at enhancing regional economic and trade integration.** Togo's trade restrictiveness has remained at 2 (relatively open) on the 10-point scale used in the Fund's classification of trade regimes, owing to no major change in trade restrictions. The Togolese authorities plan to implement the new harmonized taxation of petroleum products before June 2002 and are participating in the

work aimed at elaborating a common regional investment code. Togo is not in compliance with any of the WAEMU's convergence criteria (see Box 5).

<b>Box 5. Togo: WAEMU Budgetary Convergence Criteria, 1998-2002</b>						
(In percent)						
	Ratio	1998	1999	2000	2001 Est.	2002 Proj.
<b>Primary criteria</b>						
Basic fiscal balance/GDP	$\geq 0$	-4.9	-1.6	-3.9	-0.8	-2.9
Inflation (average rate)	$\leq 3$	1.0	-0.1	1.9	3.9	3.0
Stock of external debt/GDP	$\leq 70$	89.1	90.8	110.4	102.6	...
Change in domestic arrears	$\leq 0$	4.4	14.2	24.3	21.4	-1.5
Change in external arrears	$\leq 0$	15.0	19.5	39.8	35.2	-20.1
<b>Secondary criteria</b>						
Wages and salaries/fiscal revenue	$\leq 35$	51.0	49.2	54.9	51.1	45.9
Domestically financed invest/ fiscal revenue	$\geq 20$	0.9	1.9	2.1	1.5	2.9
External current account deficit (excluding transfers)/GDP	$\leq -5$	-16.1	-12.5	-16.8	-16.7	-16.8
Fiscal revenue/GDP	$\geq 17$	13.8	13.2	11.9	11.7	12.5
Sources: Togolese authorities; and staff estimates and projections.						

#### D. Other Structural Reforms

24. **The authorities have achieved some commendable progress in structural reforms, particularly as regards the privatization of public enterprises, despite a difficult economic and financial environment.** With regard to the OTP, the government transmitted to the World Bank and the IMF most of the documents necessary for the technical consultations that took place in Washington during February 20-22, 2002. These discussions concluded that the rehabilitation scheme envisaged by the authorities should allow phosphate production and exports to pick up and the competitiveness of the sector to be gradually restored. A second phase of the rehabilitation of the phosphate company, the construction of a phosphoric acid plant, will be initiated based on positive results of the feasibility studies.

25. **SOTOCO, the main public monopoly in the cotton sector, and the three private ginneries are confronted with substantially reduced operating margins stemming from the drop in world prices for cotton and the high operating costs (Box 6).** While SOTOCO has responded quickly to the crisis by trimming costs, more efforts are likely to be needed if low international prices persist. There is no stabilization fund, SOTOCO does not have any financial

reserves, and the government's tight financial situation does not allow the granting of any significant budgetary support. The authorities indicated their concern about the cotton sector and stressed their intention to take the necessary measures to preserve the potential contribution of this sector to economic growth and to poverty reduction. In this regard, the government, SOTOCO, and the private ginners have begun to reflect on the appropriate response to the crisis in the short term. For the 2002/03 crop season, the government will seek to reduce production costs for the whole sector. Over the medium term, more in-depth complementary studies will be required to design the restructuring strategy for this sector, and the specific actions needed to improve the competitiveness of the cotton sector and reinforce the role of producers.

#### **Box 6. Togo: Cotton Sector**

##### **The importance of the cotton sector in Togo**

Cotton contributes substantially to Togo's economy. It is the second most important export product after phosphate, and the most important agriculture export product (60 percent of agriculture exports), far ahead of coffee and cocoa. Moreover, cotton cultivation is the main cash crop activity for the rural population and also generates employment through its transportation, ginning, and export activities. The farmers are organized in cooperative groups.

##### **Institutional setup**

The **Ministry of Agriculture** is in charge of developing agriculture production, including cotton. It provides part of the extension services and recommends to the Council of Ministers for approval the producer price at the beginning of the crop season, (CFAF 200 and CFAF 165 per kilogram for first and second grade of seed cotton for the 2001/02 season equivalent to about 75 and 62 percent of international prices respectively). **SOTOCO** (*Société Togolaise de Coton*), a parastatal, is by far the main player in the cotton sector. It has a monopoly on the purchase of the entire crop and borrows from the banks for that purpose (*crédit de campagne*). SOTOCO finances the bulk of the extension services in the cotton areas, research and seed multiplication and distribution, maintenance of feeder roads, and social activities (e.g., functional literacy for adults). It also prefinances inputs and implements for the farmers (fertilizers, insecticides, sprayers, and batteries) on the basis of needs indicated by the farmers' associations and recovers the costs at the time of marketing. It purchases the entire crop of seed cotton; sells part of it to the three private ginners (SICOT and SOPIC and SOCOSA) at a price (CFAF 246/kg in 2001/02) equal to the producer price plus costs of marketing and transportation to the ginnery. The allocation of seed cotton to each private ginner is in proportion to its ginning capacity. Total ginning capacity at 250,000 tons of seed cotton in 2001/2002 (SOTOCO, 120,000 tons; SICOT, 50,000 tons; SOPIC, 40,000 tons; and SOCOSA, 40,000 tons) exceeds the production (145,000 tons in 2001/02) by far, which contributes to higher production costs.

26. A World Bank-financed consultant started to work on the privatization strategy for **Togo—Telecom** in October 2001. The consultant's work is well advanced and the strategic report of the transaction is expected to be transmitted to the government for decision soon. Also, negotiations are almost concluded with the West African Cement Company (WACEM) for its management. WACEM is the largest user of the railroad for the transportation of clinker and cement to the port of Lomé.

27. To reinforce **good governance**, the government has undertaken two major initiatives: the creation of both the National Commission to Combat Corruption and Economic Sabotage (NCCCE), and the National Commission for the Collection of the Claims on Banks, Financial

Institutions, and Other Credit Institutions. The NCCCE has undertaken a public opinion awareness campaign and has launched investigations, as a result of which a number of individuals suspected of misappropriating public funds have been arrested. The government is committed to speeding up the procedures for court proceedings under the current legislation. The NCCCE will prepare a work program and seek the support of development partners to help prepare a detailed strategy and action program, which could be supported by these partners' contribution to its budget. The NCCCE has made available to each bank a small team to reinforce the collection of nonperforming loans. In the near future, the government intends to strengthen coordination between these two commissions and the other oversight agencies (the Audit Office, the General State Inspectorate, the legal system, the inspection units in various ministries, the police, and the gendarmerie).

28. **The government has made good progress in the preparation of its interim poverty reduction strategy paper (I-PRSP).** In October 2001, the government organized a national methodological seminar with the participation of civil society and representatives of the most vulnerable groups of the population. The seminar helped to assess the existing analysis and data and reviewed the impact of past and ongoing programs/projects to fight poverty. Its work is being pursued through specialized thematic groups with the participation of resource persons, civil servants, civil society, and representatives of target groups.

#### **E. Statistical and Technical Assistance Issues**

29. **Serious efforts are still required to address the deteriorating economic and financial information system.** In June 2001, a Fund technical assistance mission helped with the computerization of the treasury and identified weaknesses and deficiencies of the treasury information system. However, because of the lack of financial assistance from bilateral donors, key recommendations of the mission have not yet been implemented. A particular concern is the adequacy of the monitoring of expenditure execution in priority areas, where budgeted and actual spending has diverged substantially over the last few years.

30. **Furthermore, Togo continues to suffer from considerable data weaknesses in a number of economic sectors, which hamper effective surveillance and program monitoring.** A particular area of concern is external debt management, which is plagued by severe constraints in terms of personnel and information technology equipment. While the debt unit at the treasury has been computerized progressively since 2000, with assistance from the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Program (UNDP), it still lacks some of the most basic equipment necessary for day-to-day operations. Staff training is also urgently required for adequate data maintenance and for the enhancement of forecasting capacity, which would be essential in undertaking any future debt sustainability analysis. Despite these difficulties, the authorities have made progress on the compilation exercise initiated in 2001 and have reconciled the debt with most Paris Club creditors, with the exception of Italy, the Netherlands, and Spain. Efforts are under way to complete the reconciliation of debt with multilateral creditors.

#### **IV. STAFF APPRAISAL**

31. **Togo's macroeconomic situation remained difficult in 2001, owing to political uncertainty, falling cotton prices, continued problems in phosphate production, and slower-**

**than-anticipated growth in the services sector.** Estimated real GDP growth in 2001 was revised downward to 2.7 percent from the 3.6 percent initially projected. Average annual inflation edged up higher to 3.9 percent, and the external account deficit (including transfers) widened to 15.9 percent of GDP. **Nevertheless, despite these difficult circumstances, some progress was made in key areas of structural reforms,** and Togo's competitiveness remains adequate in the context of the regional currency arrangement. It is critical that the reform momentum in the structural area be continued and strengthened to sustain high economic growth rates and reduce poverty.

32. **The major task of the government in 2002 is to rebuild credibility in its economic management.** Provided that the national legislative elections can be brought back on track and the present impasse in Togo's relation with its main development partners resolved, economic activity is expected to rise in 2002, with real GDP growth projected to reach 3.0 percent and the average rate of inflation to fall to about 3 percent.

33. **Improvement in fiscal policy will continue to be the cornerstone of the government's macroeconomic stabilization strategy in 2002.** The main challenge is to limit expenditures to available budgetary resources, so as to avoid any further deterioration of public finances. Improvements in treasury cash management are needed to make the budget a more effective instrument of economic management, especially during this period of extremely limited resources. The staff welcomes the authorities' plan to hold high-level monthly meetings to review revenue and expenditure and to take into account the need to fund priority social spending when making budgetary allotments for the coming months. Continued efforts to ensure that public enterprises discharge their tax revenue obligations, timely adjustments to the structure of petroleum products, and further actions to combat tax evasion and exercise control over the wide range of tax exemptions granted to embassies, international organizations, and nongovernmental organizations will all be crucial for meeting the fiscal objectives. The staff welcomes the authorities' intention to explore the fiscal treatment of cellular telephone licenses, with a view to generating more nontax revenue for the government.

34. **Togo's medium-term prospects continue to be subject to considerable uncertainties. Continuing fiscal reform, together with accelerated structural reform, would help establish a more sustainable position in the period ahead.** The staff welcomes the government's determination to deepen structural reforms in key areas and urges it to complete the privatization of state banks as soon as possible. The agreement reached with a private group to rehabilitate the physical infrastructure of the OTP under new management before fully privatizing it is proceeding well. The authorities are confident that the production and export of phosphate will recover fully by 2005 and that the company will be able to discharge its tax obligations in a timely and transparent manner. The authorities are to be commended for addressing the problems of this critical economic sector, including by successfully negotiating a rescheduling agreement of OTP debt with all commercial banks. The staff considers that it will be important for the authorities to provide the new management team with the freedom necessary to avoid a repetition of past mistakes and achieve success in the rehabilitation operation.

35. **The authorities' decision to put in place an economic program in 2002 to demonstrate their commitment to addressing fiscal and long-standing structural reform issues is welcome.** Budgetary resources are extremely tight, and, given the current political

environment and absence of external support, the authorities have little room for maneuver. The staff urges the authorities to implement their program forcefully; clearly a resolution of the present impasse with major development partners will also be essential if Togo is to mobilize critically the needed financial support. In this regard, the staff urges the authorities to regularize relations with their bilateral and multilateral external partners, so as to facilitate the resumption of normal budgetary and development assistance as soon as possible. At a minimum, every effort must be made to meet nonreschedulable current debt-service obligations vis-a-vis multilateral creditors and achieve a phased reduction of arrears already accumulated.

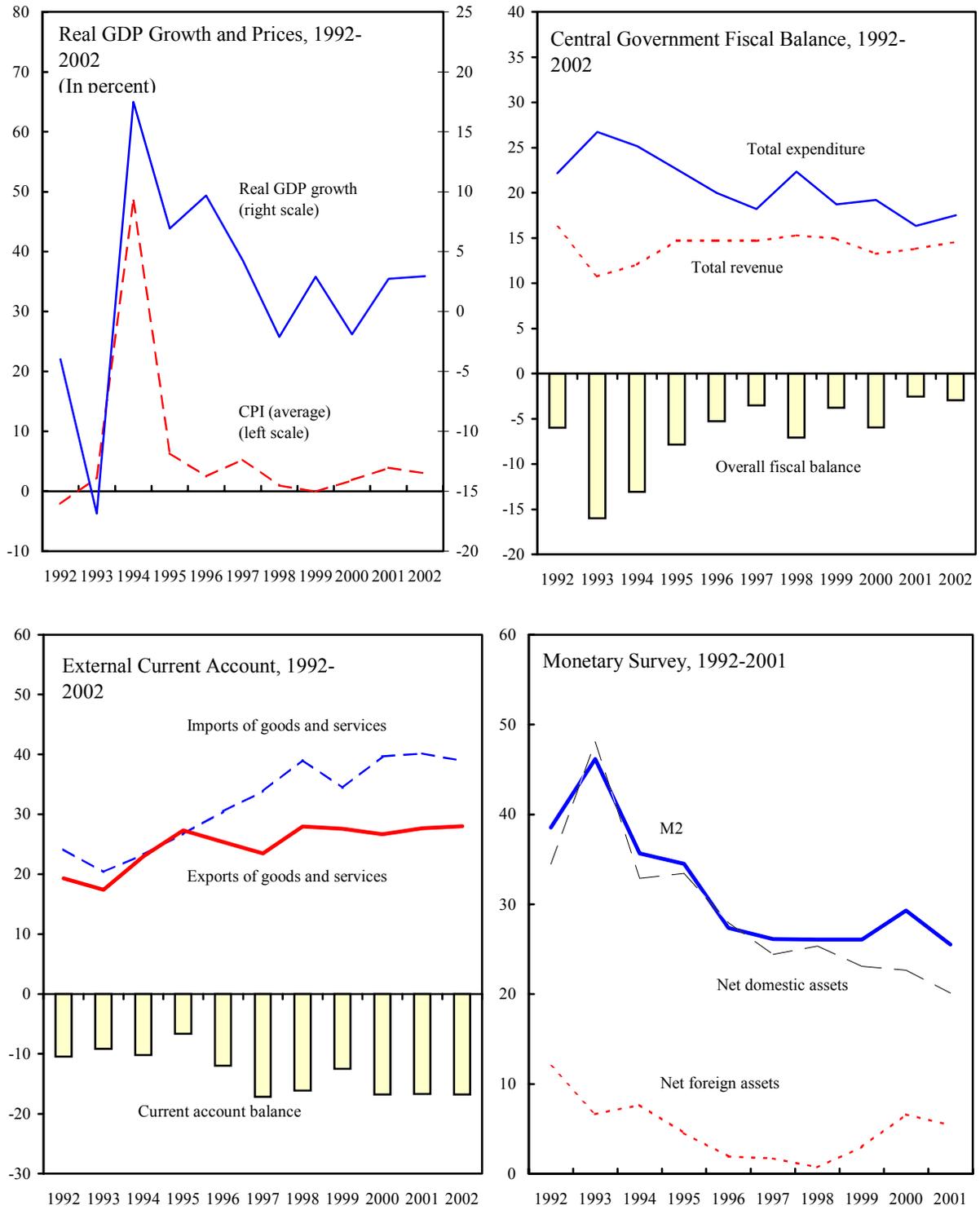
36. **Given the macroeconomic importance of the cotton sector in Togo for poverty alleviation in the rural area, fundamental reforms of this sector should be a key medium-term priority.** The staff shares the authorities' concern over the potential impact on growth and poverty alleviation of the looming problems in the cotton sector. The short-term measures under active consideration to limit the potential deficit of SOTOCO for the 2001/02 crop season are steps in the right direction. The recommendations of the diagnostic study to be prepared with World Bank assistance should also help address the short-term problems of this sector. Over the medium term, additional measures will be required to address structural issues in the sector and reinforce the role of producers. The staff urges the authorities to begin discussions with development partners on the terms of reference of the complementary studies so as to lay the basis for future financial support from the EU and other bilateral donors.

37. **Major efforts will be required to rebuilding institutional and administrative capacity.** Addressing the identified weaknesses and deficiencies of the treasury information system will require external assistance in order to upgrade the computer system, purchase needed software, and train staff. The authorities have made progress on the debt data compilation exercise initiated in 2001 to compile debt data and have reconciled debt data with most Paris Club creditors, despite a lack of the basic equipment required for adequate data maintenance and to enhance forecasting capacity. The staff urges the authorities to complete debt reconciliation with the remaining creditors.

38. **Despite some progress, Togo's statistical information system is still weak, particularly in external sector data and in public finance statistics.** The staff urges the authorities to press ahead with their efforts to strengthen the compilation of economic and social statistics. The government is a participant in the GDDS, which should help establish a framework for broad-based improvements in Togo's statistical systems.

39. The staff recommends that the next Article IV consultation with Togo be held on the standard 12-month cycle.

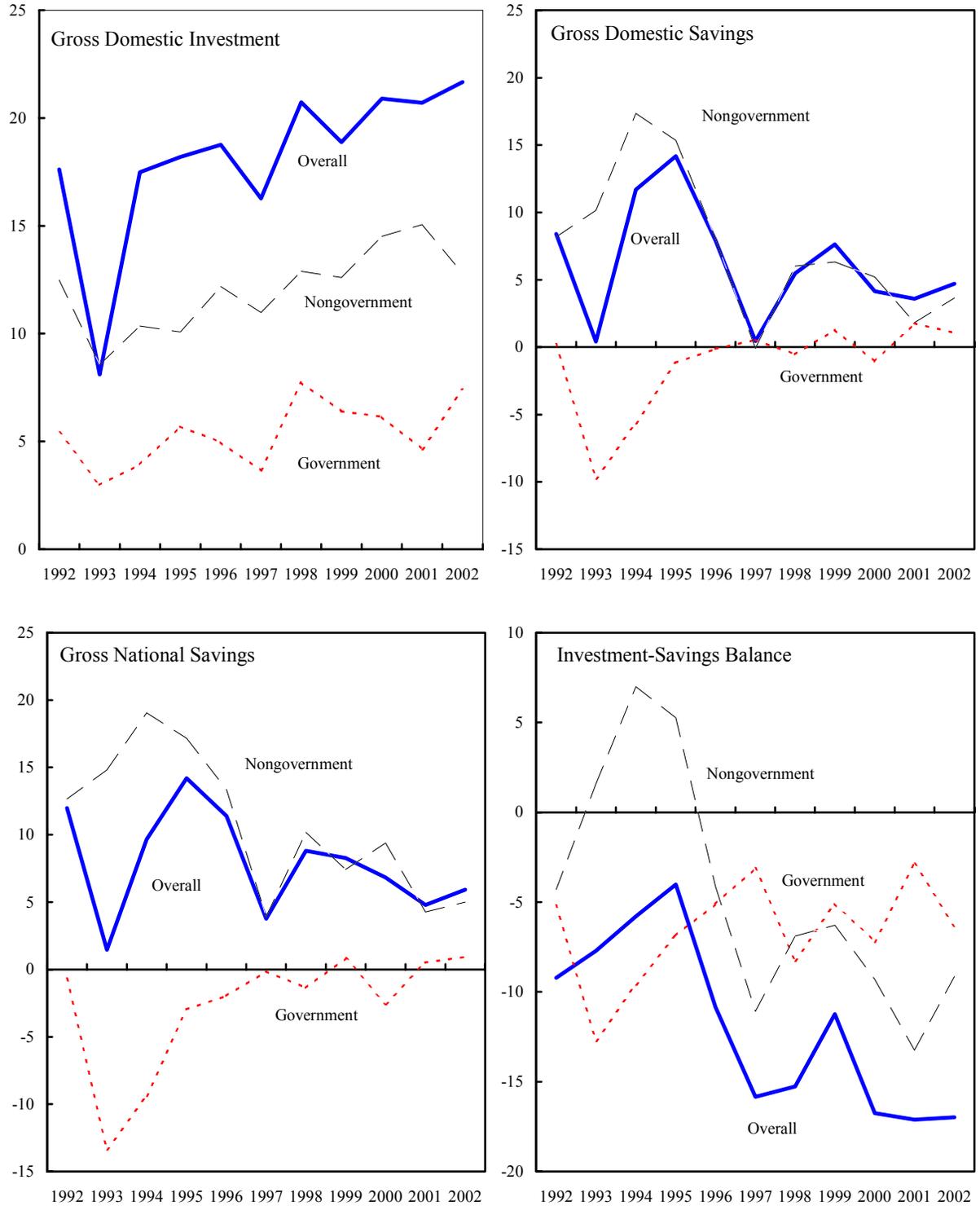
Figure 1. Togo: Selected Economic Indicators 1/  
(In percent of GDP, unless indicated otherwise)



Sources: Togolose authorities; and staff estimates and projections.

1/ Data for 2002 are projections.

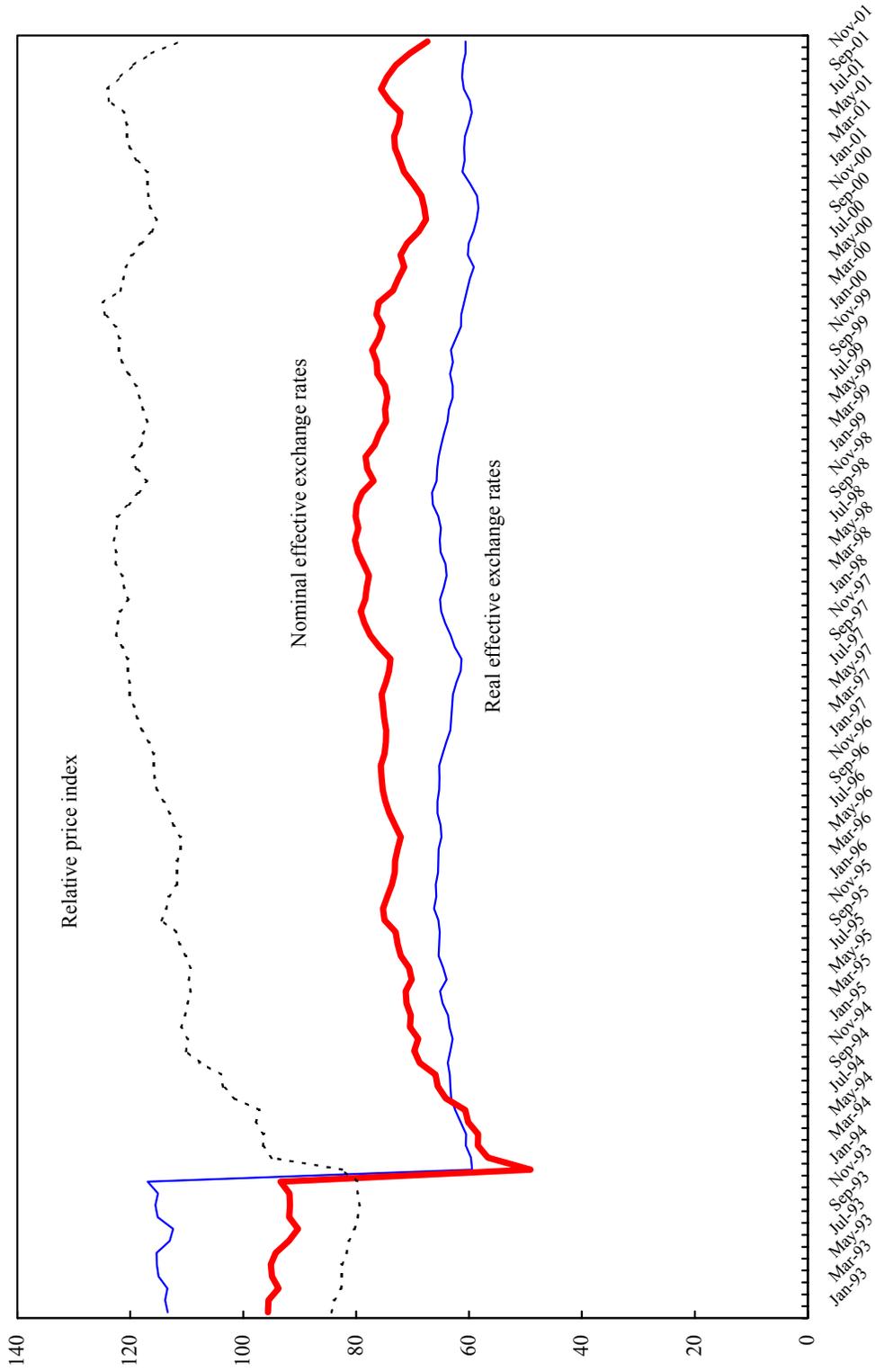
Figure 2. Togo: Investment and Savings, 1992-2002 1/  
(In percent of GDP)



Sources: Togolese authorities; and staff estimates and projections.

1/ Data for 2001-2002 are projections.

Figure 3. Togo: Nominal and Real Effective Exchange Rates, January 1993–November 2001  
(1990 = 100)



Source: IMF, Information Notice System (INS).

Table 1. Togo: Selected Economic and Financial Indicators, 1997-2002

	1997	1998	1999	2000 Est.	2001 Progr.	2001 Est.	2002 Proj.
(Annual percentage change, unless otherwise indicated)							
<b>National income and prices</b>							
Real GDP	4.3	-2.1	2.9	-1.9	3.6	2.7	3.0
Real GDP per capita	1.6	-4.6	0.3	-4.4	0.6	0.1	0.3
GDP deflator	11.9	-2.4	1.8	1.3	1.5	3.3	1.5
Consumer price index (annual average)	5.3	1.0	-0.1	1.9	3.1	3.9	3.0
Consumer price index (end of period)	5.5	-1.4	4.5	-2.5	3.0	6.8	4.8
<b>External sector</b>							
Exports, f.o.b.	8.1	13.6	3.3	-3.8	-0.3	10.0	5.9
Imports, f.o.b.	29.7	10.1	-7.7	14.5	2.2	7.5	1.3
Export volume	5.5	1.4	5.9	-5.4	-1.5	3.2	7.0
Import volume	17.6	12.6	-8.4	-6.4	2.7	4.3	3.9
Terms of trade (deterioration -)	-6.2	20.1	-4.5	-20.3	1.8	5.9	-2.6
Nominal effective exchange rate	-3.5	3.5	-2.8	-5.9	...	1.5	...
Real effective exchange rate	2.4	4.1	-3.8	-6.0	...	1.6	...
<b>Central government finances</b>							
Domestic revenue and grants	22.9	-1.1	1.1	-14.7	12.4	10.2	16.1
Total expenditure and net lending	5.2	20.3	-9.9	-2.1	3.6	-9.8	12.1
Current expenditure	8.5	9.5	-8.2	1.1	0.7	-10.5	13.5
Capital expenditure and net lending	-15.2	106.7	-17.4	-16.9	2.9	-5.7	5.0
<b>Money and credit</b>							
Net foreign assets 1/	0.2	-3.9	9.3	13.8	5.7	-3.1	-2.4
Net domestic assets 1/ <i>of which: credit to government 1/</i>	2.0	-0.8	-4.5	-2.2	-0.5	-4.4	7.0
	-7.6	7.8	-2.8	-3.1	-8.9	-2.4	-1.7
Credit to the nongovernment sector	13.2	4.6	-9.4	0.7	5.2	-4.7	4.5
Money and quasi money (M2)	11.4	-4.7	4.7	11.6	5.2	-7.5	4.5
Velocity (GDP relative to average M2)	4.0	3.7	3.9	3.6	3.6	3.8	4.0
(In percent of GDP, unless otherwise indicated)							
<b>Investment and savings</b>							
Gross domestic investment	13.0	17.2	16.0	17.8	20.5	19.7	20.2
Government	2.0	4.3	3.4	3.3	3.2	2.5	2.6
Nongovernment	11.0	12.9	12.6	14.5	17.2	17.2	17.6
Gross national savings	2.1	5.4	5.3	3.9	8.0	4.8	5.9
Government	0.1	-1.7	0.0	-2.6	-0.9	0.5	0.9
Nongovernment	2.1	7.1	5.3	6.5	8.9	4.3	5.0
<b>Government budget</b>							
Revenue and grants	16.1	16.6	16.0	13.8	14.4	14.3	15.9
Total expenditure	18.0	22.7	19.5	19.2	18.6	16.3	17.5
Overall balance (commitment basis)							
Including grants	-1.9	-6.0	-3.4	-5.4	-4.1	-2.0	-1.6
Excluding grants	-3.3	-7.4	-5.1	-6.0	-5.1	-2.5	-2.9
Overall balance (cash basis)	-5.4	-4.4	1.9	-1.1	-5.6	1.5	-1.8
Primary balance	-1.0	-4.8	-2.6	-3.7	-2.8	-0.6	-0.9
<b>External sector</b>							
Current account balance							
Including public transfers	-12.5	-11.9	-10.6	-14.1	-12.5	-15.9	-15.8
Excluding public transfers	-17.1	-16.1	-12.5	-16.8	-14.6	-16.7	-16.8
External public debt (including IMF)	90.1	89.1	90.8	110.4	103.0	102.6	...
Public debt-service ratio (including IMF)							
In percent of exports of goods and services	7.8	8.8	11.8	12.0	17.9	11.2	12.0
In percent of government revenue	15.4	19.1	26.2	29.4	40.2	26.5	27.3
Overall balance of payments (in millions of U.S. dollars)	81.7	-61.7	2.2	-31.3	-107.6	-70.1	-64.2
<b>Exchange rate</b>							
Exchange rate regime				CFA franc			
Nominal average exchange rate (CFA francs per U.S. dollar)	583.7	590.0	614.8	709.9	...	732.5	...
<b>Use of Fund resources</b>							
				(In millions of SDRs)			
Purchases/disbursements	10.9	10.9	0.0	0.0	...	0.0	0.0
Repurchases/repayments	8.4	8.4	6.9	2.6	...	2.3	7.8
Credit outstanding	64.9	67.3	60.4	57.8	...	55.5	47.7
Quota	54.3	54.3	73.4	73.4	...	73.4	73.4

Sources: Togolese authorities, and staff estimates and projections.

1/ In percent of broad money stock at beginning of period.

Table 2. Togo: Financial Operations of the Central Government, 1997-2002

	1997	1998	1999	2000	2001		2002
				Est.	Est.	Prog.	Proj.
(In billions of CFA francs)							
Total revenue	128.5	127.6	125.9	115.3	127.2	125.9	140.5
Tax revenue	115.7	115.4	115.2	103.9	108.1	111.1	120.4
Public enterprises	11.2	6.4	8.1	1.9	0.0	1.4	4.9
Other tax revenue	23.2	23.7	25.4	24.7	24.3	26.0	23.4
Import duties and taxes	56.9	57.4	52.8	49.0	56.2	53.2	58.9
Other indirect taxes	24.4	27.9	28.9	28.3	27.5	30.5	33.2
Nontax revenue	12.8	12.2	10.7	11.4	19.2	14.8	20.0
Grants	11.9	11.2	14.5	4.4	4.6	8.7	12.6
Expenditures and net lending	157.3	189.3	170.5	167.0	150.6	173.1	168.9
Current expenditures	139.7	152.9	140.4	142.0	127.0	143.1	144.1
Primary current expenditures	119.8	131.0	118.2	122.4	109.3	121.9	124.8
<i>Of which: social sector expenditure 1/</i>			33.3	27.8	28.5	...	49.1
Wages and salaries	57.0	58.9	58.8	57.1	55.3	57.0	55.3
Other goods and services	29.3	38.5	30.7	32.3	30.7	32.8	39.2
Subsidies and transfers	28.8	26.3	22.2	19.8	21.6	20.7	30.3
Others	4.8	7.4	6.5	13.3	1.8	11.5	0.0
<i>Of which: extrabudgetary expenditure 2/</i>	1.0	3.0	1.6	8.9	1.8	0.0	2.6
Interest	19.9	21.9	22.2	19.6	17.7	21.1	19.3
Interest on domestic debt	2.3	3.8	4.8	2.1	1.6	1.3	3.9
Interest on external debt	17.6	18.1	17.4	17.4	16.2	19.8	15.4
Public investment program	17.6	35.9	29.8	28.3	22.8	30.0	24.8
Domestically financed	3.3	7.3	2.9	3.2	2.7	3.5	3.5
Externally financed	14.3	28.7	26.9	25.1	20.0	26.5	21.3
Net lending	0.0	0.5	0.3	-3.3	0.8	0.0	0.0
Current balance 3/	-11.2	-25.3	-14.6	-26.7	0.2	-17.2	-3.7
Overall primary balance 4/	5.4	-11.2	4.4	-7.1	14.4	0.4	12.2
Overall balance, payment order basis							
Including grants	-16.9	-50.5	-30.2	-47.3	-18.8	-38.5	-15.8
Excluding grants	-28.8	-61.7	-44.7	-51.7	-23.4	-47.2	-28.4
Change in payments arrears	-29.9	14.0	46.8	38.1	33.0	-5.0	-1.5
Domestic	-15.8	7.0	44.5	24.3	21.4	-2.0	-1.5
Interest on external debt	-14.2	7.0	2.3	13.8	11.7	-3.0	0.0
Overall balance, cash basis	-46.8	-36.5	16.7	-9.3	14.2	-52.2	-17.3
Financing	46.8	36.4	-16.6	9.3	-14.2	-48.1	-23.8
Domestic financing	11.3	11.2	-20.0	-6.0	-23.4	-29.1	-10.7
Banking financing	-12.9	14.5	-20.1	-6.1	-8.3	-29.4	-10.7
IMF	2.6	2.4	-5.2	-5.4	-6.1	-6.1	-5.5
Central bank	-17.4	5.6	-3.3	4.3	0.0	-23.3	-5.1
Banking system	1.9	6.5	-11.6	-5.0	-2.1	0.0	0.0
Nonbanking financing	24.2	-3.3	0.1	0.1	-15.1	0.3	0.0
Advances from public enterprises	0.3	2.6	18.7	11.6	0.0	0.0	0.0
Others	24.0	-5.9	-18.6	-11.5	-15.1	0.3	0.0
External financing	35.5	25.2	3.4	15.2	9.2	-19.0	-13.2
Drawings	29.5	29.7	14.4	21.0	15.4	26.5	21.3
Project	6.6	18.4	14.4	20.8	15.4	17.8	21.3
Program	22.9	11.4	0.0	0.2	0.0	8.7	0.0
Amortization due	-17.5	-20.6	-28.2	-31.8	-32.2	-37.3	-34.5
Rescheduling obtained	15.6	8.1	0.0	0.0	1.7	0.0	0.0
Debt cancellation	37.1	0.0	0.0	0.0	0.6	0.0	0.0
Arrears in amortization	-29.2	7.9	17.2	26.0	23.6	-8.2	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	100.3	41.1
Memorandum items:	(In percent of GDP, unless otherwise indicated)						
Total revenue and grants	16.1	16.6	16.0	13.8	14.3	14.4	15.9
Total revenue	14.7	15.3	14.4	13.3	13.8	13.5	14.6
Tax revenue	13.2	13.8	13.2	11.9	11.7	11.9	12.5
Total expenditure and net lending	18.0	22.7	19.5	19.2	16.3	18.6	17.5
Current expenditure	16.0	18.3	16.1	16.3	13.8	15.4	14.9
Wage and salaries	6.5	7.0	6.7	6.6	6.0	6.1	5.7
Public investment	2.0	4.3	3.4	3.3	2.5	3.2	2.6
Primary current expenditures	13.7	15.7	13.5	14.1	11.8	13.1	12.9
Current balance 1/ (deficit -)	-1.3	-3.0	-1.7	-3.1	0.0	-1.8	-0.4
Primary balance 2/ (deficit -)	0.6	-1.3	0.5	-0.8	1.6	0.0	1.3
Overall balance, payment order basis (deficit -)							
Incl. grants	-1.9	-6.0	-3.4	-5.4	-2.0	-4.1	-1.6
Excl. grants	-3.3	-7.4	-5.1	-6.0	-2.5	-5.1	-2.9
Overall balance, cash basis	-5.4	-4.4	1.9	-1.1	1.5	-5.6	-1.8
Nominal GDP (in billions of CFA francs)	874.9	835.3	874.9	869.2	922.6	931.7	964.5

Sources: Togolese authorities; and staff estimates and projections.

1/ Social sector expenditure includes wage and goods and services costs for the education and health sectors.

2/ The figure for 2002 represents election-related expenditure.

3/ Defined as fiscal revenue minus current expenditure.

4/ Defined as revenue excluding grants minus expenditure, excluding interest payments and foreign-financed investment.

Table 3. Togo: Monetary Survey, 1997-2002

	1997	1998	1999	2000	2001 Est.	2002 Proj.
(In billions of CFA francs)						
<b>Central Bank</b>						
Net foreign assets	17.8	6.3	27.1	44.7	30.3	24.6
Foreign assets	71.2	66.0	79.7	99.3	80.3	74.6
Foreign liabilities	53.4	59.7	52.6	54.6	50.0	50.0
Net domestic assets	73.5	72.5	63.6	64.9	61.4	61.2
Claims on government, net	44.7	70.2	64.4	63.4	58.2	54.1
Claims	66.0	76.5	67.8	66.9	66.8	56.1
Treasury overdraft	15.9	21.7	18.5	22.6	28.1	23.0
SAF/ESAF on-lent	50.1	52.5	47.3	41.9	36.7	31.2
Consolidated debt and other claims	0.0	2.3	2.0	2.4	2.0	2.0
Deposits and cash	21.3	6.3	3.4	3.5	8.6	2.0
Claims on commercial banks	4.2	8.5	5.0	2.6	1.8	1.8
Claims on other financial institutions	0.3	0.3	0.3	0.3	0.3	0.3
Other items, net (assets +)	24.3	-6.4	-6.1	-1.4	1.1	4.9
Reserve money	91.3	78.8	90.6	109.6	91.7	85.8
Currency outside banks	72.9	64.8	79.8	95.9	72.2	75.4
Bank reserves	17.7	12.0	8.5	12.4	19.0	9.9
Deposits	11.6	8.3	4.1	5.6	14.5	5.4
Required reserves	0.0	0.0	0.0	0.0	8.0	0.0
Excess reserves	11.6	8.3	4.1	5.6	6.5	5.4
Cash in till	6.1	3.7	4.4	6.7	4.5	4.5
Other deposits	0.7	2.0	2.4	1.3	0.5	0.5
<b>Deposit money banks</b>						
Net foreign assets	-2.8	-0.3	-0.9	13.0	19.5	19.5
Foreign assets	39.7	38.8	39.2	57.4	70.6	70.6
Foreign liabilities	42.5	39.1	40.1	44.4	51.1	51.1
Bank reserves	17.7	12.0	9.0	13.4	11.0	9.9
Liabilities to central bank	4.2	8.5	5.0	2.6	1.8	1.8
Net domestic credit	144.3	147.7	142.9	133.6	133.9	142.7
Domestic credit	172.2	171.7	156.0	150.9	143.0	149.3
Net credit to the government	17.5	9.8	9.4	3.3	2.4	2.4
Claims	25.7	20.1	15.6	12.2	10.5	10.5
Deposits	8.2	10.3	6.1	8.9	8.1	8.1
Claims on others financial institutions	0.0	0.0	0.0	0.0	0.0	0.0
Claims on the private sector	154.7	161.9	146.6	147.6	140.6	147.0
Other items, net (assets +)	-27.9	-24.0	-13.0	-17.3	-9.0	-6.7
Liabilities to nongovernment sector	155.0	151.0	146.0	157.4	162.9	170.2
Private deposits	134.4	128.9	130.0	147.8	154.6	161.6
Other deposits (CNSS and CRI) 1/	20.6	22.1	16.0	9.7	8.3	8.6
<b>Monetary survey</b>						
Net foreign assets	15.0	6.0	26.1	57.7	49.8	44.1
Net domestic assets	213.6	211.8	202.0	197.0	185.7	202.1
Domestic credit	217.2	242.2	220.7	214.7	201.4	203.8
Net credit to the government	62.2	80.0	73.8	66.8	60.2	56.2
Claims on the nongovernment sector	155.0	162.2	146.9	147.9	140.9	147.3
Other items, net (assets +)	-3.6	-30.4	-18.7	-17.7	-15.8	-1.7
Broad money (M2)	228.6	217.8	228.1	254.7	235.5	246.2
Currency	72.9	64.8	79.8	95.9	72.2	75.4
Deposits	155.7	153.0	148.3	158.8	163.3	170.8
Sight deposits	66.2	74.0	65.2	76.9	155.8	162.8
of which: CCF deposits 2/	1.7	3.5	1.5	1.4	1.2	1.2
Term deposits	89.5	79.0	82.9	81.9	7.6	7.9
<b>Memorandum items:</b>	(In percent of beginning-of-period broad money, unless otherwise indicated)					
Net foreign assets	0.2	-3.9	9.3	13.8	-3.1	-2.4
Net domestic assets	2.0	-0.8	-4.5	-2.2	-4.4	7.0
Domestic credit	1.2	10.9	-9.9	-2.6	-5.2	1.0
Net claims on government	-7.6	7.8	-2.8	-3.1	-2.4	-1.7
Credit to nongovernment sector	8.8	3.1	-7.0	0.5	-2.7	2.7
Broad money	11.4	-4.7	4.7	11.6	-7.5	4.5
Velocity (GDP/end-of-year M2)	3.8	3.8	3.8	3.4	3.9	3.9
Velocity (GDP/average M2)	4.0	3.7	3.9	3.6	3.8	4.0
Credit to the nongovernment sector (annual change in percent)	13.2	4.6	-9.4	0.7	-4.7	4.5
Reserve money (annual change in percent)	14.3	-13.7	15.0	20.9	-16.3	-6.4
Gross reserves (in months of imports)	2.1	2.1	2.2	2.6	2.0	1.8
Gross reserves (in percent of broad money)	31.1	30.3	34.9	17.5	12.9	10.0
Nominal GDP (in billions of CFA francs)	874.9	835.3	874.9	869.2	922.6	964.5

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

1/ Deposits from Social security funds

2/ Deposits in post office agencies

Table 4. Togo: Balance of Payments, 1999-2007

	1999	2000	2001 Proj.	2001 Est.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
(In billions of CFA francs)										
Trade balance	-60.1	-112.8	-94.0	-115.4	-105.1	-81.5	-80.5	-85.8	-80.8	-58.4
Total exports	241.1	252.0	234.1	255.5	270.5	295.9	310.0	355.0	362.9	425.2
Domestic exports	192.9	185.0	180.1	201.8	212.9	251.5	244.1	262.2	285.7	335.2
Cotton	50.0	30.1	42.4	51.8	45.5	49.0	50.1	62.0	71.0	80.5
Coffee	15.1	1.0	9.5	5.9	8.0	9.5	11.1	15.5	16.3	19.5
Cocoa	4.9	5.5	4.2	5.1	5.0	6.8	7.8	9.0	10.2	11.1
Phosphates	40.1	54.4	45.8	54.4	44.8	45.1	46.5	52.5	61.6	92.5
Cement	4.1	20.9	11.0	45.0	51.1	57.2	64.1	64.1	64.1	64.1
Other	11.0	89.5	67.1	74.4	59.8	65.4	58.0	60.5	62.7	65.5
Reexports	48.2	46.4	54.0	55.5	57.5	62.5	65.9	70.8	77.1	90.0
of mineral products	1.4	15.5	15.5	22.8	18.1	18.0	18.5	18.4	17.9	17.8
Imports, f.o.b.	-301.2	-344.8	-328.1	-370.1	-375.5	-377.5	-390.5	-418.8	-443.7	-481.6
o/w: For re-exports	44.0	42.9	49.9	49.4	55.1	55.1	58.8	65.1	68.8	80.2
Petroleum products	29.1	50.0	40.0	68.1	57.5	59.4	61.8	64.4	65.7	69.1
Services and income (net)	-61.9	-55.0	-60.2	-60.4	-79.0	-78.8	-80.2	-84.1	-88.5	-95.2
Services (net)	-58.5	-52.9	-57.5	-42.0	-58.0	-57.4	-60.5	-65.1	-67.2	-72.9
Income (net)	-25.0	-20.1	-22.9	-17.8	-20.5	-21.4	-19.7	-19.1	-21.3	-20.5
of mineral products on private accounts only	-17.4	-17.4	-19.8	-16.2	-15.4	-15.8	-12.8	-14.1	-9.6	-9.1
Unrequited transfers (net)	29.4	44.0	38.1	28.9	52.1	55.0	56.1	57.4	38.8	59.2
Private	12.1	20.5	18.1	21.1	22.2	25.5	24.0	25.9	27.3	28.1
Public	16.1	25.5	20.0	7.2	9.9	10.5	11.5	11.5	11.5	10.5
Current account balance (excluding official grants)	-92.0	-122.4	-110.1	-140.9	-152.0	-120.5	-130.4	-155.1	-150.6	-112.5
Capital account	15.9	8.5	10.2	11.5	19.0	20.5	25.1	26.2	26.7	28.5
Private transfers	1.4	4.2	1.5	0.1	6.4	6.8	7.2	7.1	8.2	8.8
Official project grants	12.5	4.5	8.7	4.0	12.0	19.1	18.5	18.5	18.5	18.5
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Financial account (net)	78.0	91.0	51.2	84.2	80.2	60.0	54.2	64.0	72.4	72.0
Public, medium and long term	-15.8	-10.8	-19.5	-16.1	-15.2	2.9	-5.8	-2.4	-2.6	-5.0
Disbursements	14.4	21.0	17.8	15.4	21.5	50.1	20.2	20.2	20.2	20.2
Project loans	14.4	20.8	17.8	15.4	21.5	50.1	20.2	20.2	20.2	20.2
Nonproject loans	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-28.2	-31.8	-37.5	-32.2	-34.5	-27.8	-26.0	-22.6	-22.8	-25.1
Public enterprise borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term private capital	41.1	45.9	40.0	52.5	40.4	40.0	40.0	45.0	50.0	50.0
Portfolio investment	4.8	5.5	6.0	5.8	8.8	7.1	10.0	12.0	15.0	15.0
Other medium and long term investment	0.0	-0.4	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks' NFA	-0.0	15.9	0.0	6.5	0.0	0.0	0.0	0.0	0.0	0.0
Short-term capital	25.1	46.1	5.0	50.2	50.2	10.0	10.0	10.0	10.0	10.0
Errors and omissions	22.5	-7.2	0.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.5	-22.2	-74.1	-51.4	-46.8	-59.5	-50.5	-42.5	-51.5	-12.1
Financing	-1.5	22.2	-25.1	51.4	5.1	-61.1	-20.8	-25.5	-55.1	-4.2
Change in net foreign assets (- increase)	-20.8	-17.0	-14.4	14.4	5.1	-22.1	-6.8	-5.5	-8.1	21.8
of mineral products and reserves	-5.2	-5.4	-6.1	-6.1	-5.5	-7.0	-7.0	-4.4	-1.8	-1.8
Change in arrears (reduction -) 1/	19.2	39.8	-11.2	55.5	0.0	-58.4	-20.0	-20.0	-25.0	-20.0
Principal	17.2	26.0	-8.2	25.0	0.0	-25.5	-10.0	-10.0	-15.0	-15.0
Interest	2.5	15.8	-5.0	11.1	0.0	-15.1	-10.0	-10.0	-10.0	-11.0
Rescheduling obtained	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	100.4	0.0	41.1	100.6	77.5	67.5	64.6	16.5
Memorandum items:	(In percent of GDP, unless otherwise indicated)									
Trade balance	-6.9	-15.0	-10.1	-12.5	-10.9	-8.0	-7.9	-7.4	-6.5	-4.4
Exports of goods	27.0	26.1	25.1	27.1	28.0	28.8	28.5	28.1	29.2	31.0
Imports of goods	-34.4	-39.1	-35.2	-40.2	-38.9	-36.7	-36.4	-35.0	-35.7	-35.0
Current account deficit, excluding grants	-12.5	-16.8	-14.0	-16.1	-16.8	-15.4	-15.0	-12.4	-11.4	-9.2
Current account deficit, including grants	-10.0	-14.1	-12.5	-15.9	-15.8	-12.4	-12.0	-11.5	-10.5	-8.4
Overall balance	0.2	-2.6	-8.0	-5.0	-4.9	-5.9	-4.6	-5.6	-2.5	-0.9
Volume of trade balance (annual percent change)										
Exports of goods	5.9	-5.4	-1.5	5.2	7.0	5.2	5.0	5.5	7.6	14.6
Imports of goods	-8.4	-6.4	2.1	4.5	5.9	5.1	4.5	4.9	5.4	6.8
Price index (annual percent change)										
Exports of goods	-0.8	1.8	1.2	6.6	-1.1	5.5	1.8	2.0	1.5	1.8
Imports of goods	2.5	20.1	-0.6	1.5	1.5	-5.1	1.0	0.1	0.5	1.0
Terms of trade	77.1	79.5	95.9	84.1	81.9	89.4	90.5	91.9	92.8	95.1
Nominal GDP (in billions of CFA francs)	874.9	869.2	951.1	922.0	964.5	1,022.1	1,088.1	1,161.9	1,245.4	1,538.5
CFA franc per U.S. dollar (period average)	614.8	709.9	694.6	752.5	...	...	...	...	...	...

Sources: Togoese authorities; and staff estimates and projections.

1/ Assumes clearing of all multilateral arrears in 2005, and other non-rescheduable arrears beyond 2005.

Table 5. Togo: Public Sector External Debt and Debt Service by Creditor, 1999-2002

	End-1999		End-2000		2001		2002	
	Stock	<i>Of which</i> Arrears	Stock	<i>Of which</i> Arrears	Stock	<i>Of which</i> Arrears	Debt Service Est.	Debt Service Proj.
(In billions of CFA francs, unless otherwise indicated)								
All creditors	794.0	29.5	959.3	90.7	947.1	125.1	55.9	54.8
All creditors (millions of U.S. dollars)	1,291.3	48.0	1,351.3	127.8	1,292.9	170.7	76.3	75.2
Multilateral	529.1	8.4	675.0	10.4	649.1	18.4	22.9	22.1
IMF	47.3	0.0	35.8	0.0	29.5	0.0	6.2	5.7
IDA	392.3	0.9	452.7	3.8	441.2	2.5	10.2	10.3
African Development Fund (ADF)	54.5	0.7	51.1	0.9	69.0	0.6	1.2	1.3
Others	35.0	6.9	135.4	5.7	109.4	15.3	5.3	4.8
Official bilateral	264.7	20.9	284.1	80.1	297.8	106.5	32.8	32.7
Paris Club	254.5	20.9	254.5	72.1	256.9	102.3	29.4	29.2
Non-previously rescheduled debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Previously rescheduled debt	254.5	20.9	254.5	72.1	256.9	102.3	29.4	29.2
Non-Paris Club	10.1	0.0	29.6	8.0	40.9	4.1	3.3	3.4
Short term	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0
(In percent of GDP)								
All creditors	90.8	3.4	110.4	10.4	102.7	13.6	6.1	5.7
Multilateral	60.5	1.0	77.7	1.2	70.4	2.0	2.5	2.3
IMF	5.4	0.0	4.1	0.0	3.2	0.0	0.7	0.6
IDA	44.8	0.1	52.1	0.4	47.8	0.3	1.1	1.1
African Development Fund (ADF)	6.2	0.1	5.9	0.1	7.5	0.1	0.1	0.1
Others	4.0	0.8	15.6	0.7	11.9	1.7	0.6	0.5
Official bilateral	30.3	2.4	32.7	9.2	32.3	11.5	3.6	3.4
Paris Club	29.1	2.4	29.3	8.3	27.9	11.1	3.2	3.0
Non-previously rescheduled debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Previously rescheduled debt	29.1	2.4	29.3	8.3	27.9	11.1	3.2	3.0
Non-Paris Club	1.2	0.0	3.4	0.9	4.4	0.4	0.4	0.4
Short term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Togolese authorities; and staff estimates and projections.

Table 6. Togo. Quantitative and Structural Benchmarks Under the SMP, April-December 2001  
(In billions of CFA francs)

	June		September		December	
	Prog.	Real.	Prog.	Real.	Prog.	Real.
<b>Quantitative benchmarks</b>						
Cash revenue	56.6	63.7	93.1	94.0	125.9	127.2
Ceiling on expenditures, domestically financed 1/2/ 3/	60.7	69.8	106.0	102.9	158.5	150.6
Accumulation of new internal arrears	0.0	6.0	0.0	8.9	0.0	21.4
New external arrears to multilateral creditors	0.0	7.1	0.0	4.0	0.0	6.6
Phased reduction of arrears to multilateral creditors 4/	-1.9	-0.7	-3.1	-5.1	-10.8	-5.1
Nonconcessional debt contracted or guaranteed by central government	0.0	0.0	0.0	0.0	0.0	0.0
Central bank credit to the government (stock) 5/	23.3	22.8	23.3	25.3	23.3	28.1
<b>Structural benchmarks</b>						
OTP Provide to the World Bank all information on the privatization strategy (April) Banking sector						Delayed
Adoption of the privatization strategy for UTB, BTCL, and BTID by the Council of Ministers, including treatment of the OTP claim (April)		Completed				
BTID Begin consultation with interested buyers (April) Finalize agreement with selected buyers (June)				Completed	No agreement was reached	
BTCL Begin consultation with interested buyers (Feb) Finalize agreement with selected buyers (June)				Completed		Ongoing
UTB Finalize documents (May) Launch call for bids (June)						Delayed
SNI Begin consultation with interested buyers (April) Reach agreement with potential buyers (June)				Completed		Completed

1/ Excluded expenditures related to the legislative elections and capital spending externally financed.

2/ These ceilings represent the maximum of monthly expenditures.

3/ The actual expenditures level will be adjusted in line with cash revenue collected.

4/ Includes interest and amortization.

5/ The stock of commercial bank net credit to the government should remain constant or decrease at best.

**Togo: Relations with the Fund**

(As of January 31, 2002)

**I. Membership Status:** Joined August 1, 1962; Article VIII

<b>II. General Resources Account:</b>	SDR million	Percent of quota
Quota	73.40	100.00
Fund holdings of currency	73.10	99.60
Reserve position in the Fund	0.30	0.41

<b>III. SDR Department:</b>	SDR million	Percent of allocation
Net cumulative allocation	10.98	100.00
Holdings	0.18	1.68

<b>IV. Outstanding Purchases and Loans:</b>	SDR million	Percent of quota
Enhanced structural adjustment facility (ESAF) arrangements	45.29	61.71

**V. Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF	09/16/94	06/29/98	65.16	54.30
ESAF	05/31/89	02/28/93	46.08	38.40
Structural adjustment facility (SAF)	03/16/88	05/30/89	26.88	7.68

**VI. Projected Obligations to the Fund**

**Under the Repurchase Obligations Assumption 1/**

(SDR million; based on existing use of resources and present holdings of SDRs):

	2002	2003	Forthcoming 2004	2005	2006
Principal	7.30	9.80	10.90	7.60	4.30
Charges/interest	0.50	0.40	0.40	0.30	0.30
Total	7.80	10.20	11.30	7.90	4.60

1/ Repurchase obligations: repurchases in the credit trenches, including the Compensatory Financing Facility, are to be completed in 3 ¼ - 5 years. Repurchases under the Extended Fund Facility are due in 4½-10 years.

### **VII. Exchange Arrangement**

Togo is a member of the West African Economic and Monetary Union (WAEMU). The exchange system common to all member countries of the WAEMU is free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's common currency, the CFA franc, pegged to the French franc previously (the CFA franc was devalued in January 1994 with a new parity set at F 1 = CFAF 100) was pegged to the euro at the fixed rate of EUR 1 = CFAF 655.9 in January 1999. In April 2002, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 941.7.

### **VIII. Article IV Consultations**

Togo is on the standard 12-month Article IV consultation cycle. The 2001 Article IV consultation was completed by the Executive Board on April 20, 2001 (EBM/01/40; 4/20/01).

### **IX. Technical Assistance**

<b>Department</b>	<b>Type of Assistance</b>	<b>Time of Delivery</b>	<b>Purpose</b>
TGS	Staff	June 2001	Computerization of treasury
FAD	Staff	July 2000	Public expenditure management
FAD	Resident advisor	1997	Tax administration
FAD	Resident advisor	July 1996	Customs administration
FAD	Staff	February 1995	Tax reform
FAD	Staff	September 1994	Public expenditure management
FAD	Staff	February 1992	Tax reform
FAD	Staff	November 1991	Budgetary reform

### **XI. Resident Representative**

Mr. Jean Pierre LeBouder is the Resident Representative.

## **BCEAO: SAFEGUARDS ASSESSMENTS—SUMMARY OF CONCLUSIONS**

### **SAFEGUARDS ASSESSMENT OF THE BCEAO**

#### **Introduction**

The Central Bank of the West African States (BCEAO) is the common central bank of the West African States, which includes Togo. A Stage Two (onsite) safeguards assessment of the BCEAO proposed specific remedies to alleviate vulnerabilities that were identified by the staff. While the authorities have committed themselves to implementing some of the proposed remedies, significant disagreements remained on the main remedies presented below.

#### **Main findings, staff proposals, and BCEAO response**

**Financial reporting framework.** The staff recommended that the BCEAO formally adopt the International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes.

The BCEAO argued that it would not be realistic to adopt the IAS in their entirety and that it did not appear feasible to indicate the differences between the IAS and the accounting standards followed by the BCEAO. On the second recommendation, the BCEAO partially agreed and noted that the planned new chart of accounts, which were being drafted, would provide for even more detailed notes.

**Internal controls system.** The staff noted that the absence of oversight by an entity outside the management of the BCEAO to enhance the available checks and balances represented a significant risk.

The BCEAO disagreed with the staff recommendation to establish an audit committee and argued that there was a deep-seated culture of internal control, promoted by the bank's management, and supplemented by the balance of power among the West Africa Monetary Union (WAMU) Council of Ministers, the BCEAO Board of Directors, and the national credit committees.

#### **Next steps**

The staff has noted its disagreement with the BCEAO official response to its findings and has asked the Governor to share the staff views with the BCEAO Board of Directors. The staff will continue to pursue discussions with BCEAO management to find mutually acceptable solutions to these two outstanding areas of disagreement.

**Togo: Relations with the World Bank Group**  
(In million of U.S. dollars, as of February 26, 2002)

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Project Name	Original Principal (IDA)	Disbursed (IDA)
Lomé Urban Development	26.2	24.1
National Agriculture Services (PNASA)	26.2	5.6
Road Transport	50.0	25.7
Public Enterprise Restructuring & Privatization	30.0	6.6
Social Fund	5.0	1.4
Total	137.4	63.4

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Source: IDA Summary Statement of Credits.

### **Togo: Statistical Issues**

1. The authorities have generally provided the core statistical indicators to the Fund. Weaknesses in the areas of national accounts, balance of payments, and public finance statistics intensified in the early 1990s with the disruption in government services related to social disturbances, as well as to salaries and wages arrears for the civil servants. This situation has worsened since the expiration of the last Enhanced Structural Adjustment Facility (ESAF) arrangement in June 1998. However, with the participation of Togo in the General Data Dissemination System, the quality and timeliness of data have greatly improved over the last years.

2. The economic and financial information on Togo is mainly provided by the Ministry of Finance and Privatization, the Ministry of Planning, and the Central Bank of West African States (BCEAO).

#### **National accounts**

3. Comprehensive annual national accounts data, both from the production and the expenditure side, are prepared by a GDP Committee composed of representatives of the Department of Statistics, a component of the Ministry of Planning, the Ministry of Finance and Privatization, the Ministry of Agriculture, and the BCEAO. National accounts data are revised twice a year. Main data sources used to compile national accounts are based on estimates of agricultural production and exports, and on surveys of private and public enterprise activity related to the secondary and tertiary sectors. The degree of coverage varies, as coverage of the private sector is weaker and there are weaknesses in the estimates of gross fixed capital formation and changes in inventories, as well as in the estimation of sectoral and overall deflators.

#### **Prices, employment, and wages**

4. A new consumer index price (CPI), the “harmonized index,” has been produced since 1990. This new index replaced the old 1987 base year with 1996 of the CPI to take into account changes in consumption patterns resulting from the January 1994 devaluation of the CFA franc, and it harmonized the CPIs used by the member countries of the West African Economic and Monetary Union (WAEMU). Unfortunately, the CPI is limited to covering only the capital city, Lomé. There are no official periodic statistics on wages and employment. Data on employment in the formal sector are provided by the *Caisse de Sécurité Sociale* (CNSS), and those on civil servant and permanent government employees by the Ministry of Public Service and Employment.

#### **Public finance**

5. The latest government finance statistics (GFS) data reported by the authorities were for 1987 and were published in the 1992 *Government Finance Statistics Yearbook (GFSY)*. The authorities have for the first time provided annual data for 1980–2000 for publication in *International Financial Statistics (IFS)*. Data on government operations have been made

available to the African Department through December 2000. With the help of various Fund technical assistance missions and the recommendations of the WAEMU Commission, a unified budget is now produced that includes capital spending. The data on the government's operations include that of the central government and autonomous agencies. Data on public enterprises' balance sheets and operating results, valued added, tax payments, investments, and debts are also available and were communicated to the Fund mission.

Nevertheless, the quality of the public finance statistics is still unsatisfactory, and the treasury is still unable to ensure consistency among data on commitments, payment orders, and payments. Moreover, little up-to-date information is available on the key social and demographic indicators.

### **Balance of payments and international trade statistics**

6. The balance of payments statistics have improved since the completion, with Fund assistance, of the regional harmonization of statistics procedures on the external sector; however, the compilation of the data still suffers from some deficiencies in the estimates of reexports, informal trade, and services and transfers, and particularly, the registration of private flows.

7. Balance of payments statistics are prepared by the national agency of the BCEAO on the basis of international trade statistics provided by the customs administration, the public sector external financing and debt-service data provided by the Ministry of Finance and the Ministry of Planning, surveys concerning private sector operations in factor and nonfactor services, and capital transactions settled through the central bank's and the commercial banks' external positions. Besides the difficulties mentioned above with respect to improving the quality of the balance of payments statistics, there is the difficulty inherent in the monetary union in determining the central bank's external position. Summary annual balance of payments data are provided to Fund missions on a regular basis, but they are subject to major revisions as more detailed data become available. Fund missions frequently adjust certain aspects of the data provided by the authorities to ensure consistency with data from other sources.

The balance of payments unit at the central bank has been strengthened, and coordination between the central bank and the Department of Statistics is improving.

### **Monetary data**

8. Monetary data are provided by the BCEAO on a regular basis. Problems that appear in the monetary statistics for Togo are not specific to that country but concern all seven countries of the West African Monetary Union. The main statistical problem arises from the difficulties the BCEAO has encountered in estimating currency in circulation in each WAEMU member country because of the large backlog of unsorted banknotes held by the central bank in its various national agencies. That problem influences the determination of net foreign assets for each member country.

9. Data on interest rates on deposits, loans, and money market operations are provided to Fund missions on an ad hoc basis.

Togo: Core Statistical Indicators  
(As of March 29, 2002)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt
Date of latest observation	Current	12/01	12/01	12/01	12/01	12/01	12/01	12/01	1999	12/00	1999	2001
Date received	Current	12/01	12/01	12/01	12/01	01/02	01/02	01/02	01/02	01/01	01/01	01/02
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Variable	Monthly	Quarterly	Annually	Quarterly	Annually	Annually
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Monthly	Variable	Monthly	Variable	Variable	Quarterly	Variable	Variable
Source of update 1/	EIS/TRE	BCEAO	BCEAO	BCEAO	BCEAO	BCEAO	Direction de la Statistique	BCEAO	BCEAO	Ministry of Finance	Ministry of Finance	SNI
Mode of reporting	On line	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	2/	2/	2/	2/	No	No	2/	2/	2/	2/	2/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Quarterly	Semiannually	Annually

1/ EIS = IMF Economic Information System; TRE = IMF, Treasurer's Department; BCEAO = Central Bank of the West African States; and SNI = Société Nationale d'Investissement.

2/ Preliminary data for staff use only; actual data unrestricted.

### **Togo: Medium-Term Prospects, 2002-07**

1. A medium-term outlook was discussed with the authorities (Table 7), based on the following set of assumptions:

- The evolution of the political situation will allow normalization of relations with external donors by the end of 2002, and external financing will resume early in 2003.
- The authorities will actually adhere to the economic stabilization program.
- The production capacity of the phosphate company, OTP, will be successfully rehabilitated, so that production can increase to full capacity.
- The cotton sector will be restructured, and timely payments for cash crops (mainly cotton) will be made to producers.

2. Under these assumptions, growth should recover from minus 1.9 percent in 2001 and progressively rise to 3.0 percent in 2002 and reach 5.5 percent in 2005. The external account deficit (including official transfers) will narrow substantially from 15.8 percent of GDP in 2002 to about 8 percent in 2007. This improvement is likely to be driven by higher cotton, phosphate and cement exports, given the assumed recovery of both the OTP and the state cotton company, SOTOCO. Thus, export volumes are forecast to outpace import growth over the period 2002-07, while the terms of trade are projected to improve by 10 percent over the same period. Further, assuming that inflows of donor support and foreign direct investment will be forthcoming, the capital account is estimated to improve over the medium term. By the same token, the financial account should benefit from increasing foreign investment in Togo.

3. The main risk to the medium-term scenario is a weak implementation of the measures envisaged under the authorities' program in particular privatization, which had been designed to improve Togo's competitiveness and a failure to restore relations with the international donor community. Under this scenario, the delays in program assistance would undermine the business climate and result in a further loss of confidence. A further potential source of uncertainty is the adverse evolution of international cotton prices. Should such a situation emerge, real economic growth would fluctuate around 2.5 percent over the period 2003-05; fiscal discipline would deteriorate, resulting in a substantial accumulation of domestic and external arrears and further worsening the business climate. The incidence of poverty would also increase. The overall fiscal deficit, excluding grants, would remain around 4 percent during the period. The external current account deficit would widen and lead to continued accumulation of external arrears.

Table 7. Medium-Term Projections, 2002-2007

	2002	2003	2004	2005	2006	2007
	Projections					
<b>Baseline scenario (with a Fund-supported program)</b>						
	(Annual percentage change, unless otherwise indicated)					
Nominal income and prices						
Real GDP	3.0	4.0	4.5	4.7	5.0	5.5
Real GDP per capita	0.4	1.4	1.9	2.0	2.3	2.8
Consumer prices (annual average)	2.0	2.4	2.0	2.1	2.2	2.2
Consumer prices (end of period)	3.0	2.6	2.5	2.5	2.5	2.0
External sector						
Exports, f.o.b.	5.9	8.8	5.4	7.4	9.0	9.0
Imports, f.o.b.	1.3	0.0	5.7	5.6	6.0	8.5
Current account 1/	5.1	-15.5	3.7	1.9	-1.7	-5.0
	(In percent of GDP, unless otherwise indicated)					
Total revenue and grants	16.0	15.9	16.2	16.5	16.9	17.5
Total revenue	14.5	14.0	14.5	14.9	15.4	16.0
Total expenditure and net lending	19.1	20.4	18.6	18.5	17.7	17.2
Current expenditure	15.1	14.7	14.3	14.2	13.3	13.0
Capital expenditure	3.9	5.6	4.2	4.3	4.4	4.2
Overall fiscal balance, including grants (payment order basis)	-3.0	-4.4	-2.5	-2.0	-0.8	2.7
Overall fiscal balance, excluding grants (payment order basis)	-4.5	-6.4	-4.2	-3.6	-2.3	1.3
Current account 1/	-15.8	-12.4	-12.0	-11.5	-10.5	-8.4
Nominal GDP (In billions of CFA francs)	964.9	1,023.6	1,090.9	1,163.8	1,243.4	1,338.5
<b>Alternative scenario (without a Fund-supported program)</b>						
	(Annual percentage change, unless otherwise indicated)					
Nominal income and prices						
Real GDP	2.6	2.5	2.5	2.4	2.5	2.5
Real GDP per capita	0.0	-0.1	-0.1	-0.2	0.3	0.5
Consumer prices (annual average)	2.0	2.4	2.0	2.1	2.2	1.9
Consumer prices (end of period)	3.0	2.6	2.5	2.5	2.3	2.0
External sector						
Exports, f.o.b.	5.6	7.5	3.4	5.3	6.3	5.0
Imports, f.o.b.	0.7	-1.4	3.6	3.4	3.8	3.9
Current account 1/	3.8	-19.9	4.8	-0.9	-3.2	-3.0
	(In percent of GDP, unless otherwise indicated)					
Total revenue and grants	15.3	13.8	14.1	14.6	14.5	14.5
Total revenue	14.6	13.3	13.6	14.1	14.0	14.0
Total expenditure and net lending	17.7	17.7	17.6	18.0	17.9	17.9
Current expenditure	15.2	14.9	14.8	14.9	15.0	15.0
Capital expenditure	2.5	2.8	2.8	3.1	2.9	2.9
Overall fiscal balance, including grants (payment order basis)	-2.4	-3.9	-3.5	-3.4	-3.4	-3.4
Overall fiscal balance, excluding grants (payment order basis)	-3.0	-4.4	-4.0	-4.0	-3.9	-3.9
Current account 1/	-15.9	-12.2	-12.2	-11.6	-10.7	-10.0
Nominal GDP (In billions of CFA francs)	964.5	1,022.1	1,088.7	1,161.9	1,152.1	1,204.4

Sources: Togolese authorities; and staff estimates and projections.

1/ Including grants.

Public Information Notice (PIN) No.  
FOR IMMEDIATE RELEASE

## **IMF Concludes 2002 Article IV Consultation with Togo**

On [Month, dd, yyyy], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Togo.<sup>1</sup>

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

### **Background**

Togo's macroeconomic situation remained difficult in 2001, owing to political uncertainty, falling cotton prices, and continued problems in phosphate production and slower-than-anticipated growth in the services sector. Nevertheless, the economy recovered somewhat in 2001, achieving a real GDP growth rate of 2.7 percent, compared with a contraction of 1.9 percent in 2000. This recovery was driven by solid growth in cash crop production, reflecting favorable climatic conditions and, in the case of cocoa, higher international prices. Despite robust growth in cement production, the sector was hampered by a major contraction of phosphate production, caused by a decline of the production capacity of the Togolese phosphate company (OTP), and by a further deterioration of its financial situation. The external current account deficit (including official transfers) widened to 15.9 percent of GDP in 2001 from about 14 percent in 2000, as the improvement in the terms of trade was more than offset by a larger volume of imports (mostly linked to activities in the export processing zone) and a deterioration in the services balance. The average annual rate of inflation picked up to 3.9 percent, reflecting mainly higher transportation costs. In the fiscal area, the government revenue collection was hampered by continued problems in tax collection from key public enterprises and a shortfall in petroleum excise tax, as the automatic adjustment mechanism was not implemented as envisaged. Declining revenues were somewhat matched by some cuts in current expenditure. However, substantial expenditure pressures emerged in the last quarter of 2001, notably extrabudgetary spending, including travel abroad. While the overall deficit, on a payment order basis and including grants, was limited to 2.0 percent of GDP, there was a substantial accumulation of domestic

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the [Month, dd, yyyy] Executive Board discussion based on the staff report.

and external payment arrears on debt service (about 3.5 percent of GDP). The overall deficit on a cash basis was thus limited to 1.5 percent of GDP. With limited domestic and external financing, further arrears were accumulated on amortization payments.

Performance under the staff-monitored program (SMP) was mixed, as the political situation remained unsettled. While significant progress was made in implementing structural reforms to privatize the state banks, most of the quantitative benchmarks under the SMP were not met, in particular on net credit to the government and the nonaccumulation of new domestic and external arrears. Nevertheless, the SMP played a positive role in stabilizing the economy and advancing structural reforms in 2001.

Togo's near-term economic prospects will depend on continued adherence to prudent macroeconomic policies, acceleration of structural reforms to foster an environment favorable to private sector development, and the rapid normalization of relations with external donors, which will be a condition for the resumption of their financial support. If the authorities implement their own economic program in 2002 and if the political situation is resolved toward the end of the year, the rate of real economic growth is expected to pick up to 3.0 percent in 2002, and inflation will be brought down to about 2 percent. The projected improvement in economic growth would be attributable to increased production of cotton, cocoa, and foodstuff. Moreover, the implementation of the present rehabilitation plan for the OTP will also allow production to increase, starting in 2002.

### **Executive Board Assessment**

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**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

## Togo: Selected Economic Indicators

	1998	1999	2000	2001
(Annual percentage change, unless otherwise indicated)				
<b>Output and prices</b>				
Real GDP	-2.1	2.9	-1.9	2.7
CPI (end of period)	-1.4	4.5	-2.5	6.8
<b>Government budget</b>				
Revenue and grants	-1.1	1.1	-14.7	10.2
Total expenditure	20.3	-9.9	-2.1	-9.8
Current expenditure	9.5	-8.2	1.1	-10.5
Capital expenditure	106.7	-17.4	-16.9	-5.7
<b>Money</b>				
Broad money (M2)	-4.7	4.7	11.6	-7.5
Velocity (GDP/average M2)	3.7	3.9	3.6	3.8
(In percent of GDP, unless otherwise indicated)				
<b>Government budget</b>				
Revenue and grants	16.6	16.0	13.8	14.3
Total expenditure	22.7	19.5	19.2	16.3
Primary balance	-4.8	-2.6	-3.7	-0.6
Overall balance 1/	-7.4	-5.1	-6.0	-2.5
<b>External sector</b>				
Current account 2/	-16.1	-12.5	-16.8	-16.7
External public debt	89.1	90.8	110.4	102.6
Debt-service ratio 3/	8.8	11.8	12.0	11.2
<b>Exchange rate</b> (CFAF/\$)	590.0	614.8	709.9	732.5
<b>Nominal GDP</b> (In billions of CFAF)	835.3	874.9	869.2	922.6

Sources: Togolese authorities; and staff estimates and projections.

1/ On payment order basis and excluding grants.

2/ Excluding official grants.

3/ In percent of goods and nonfactor services.